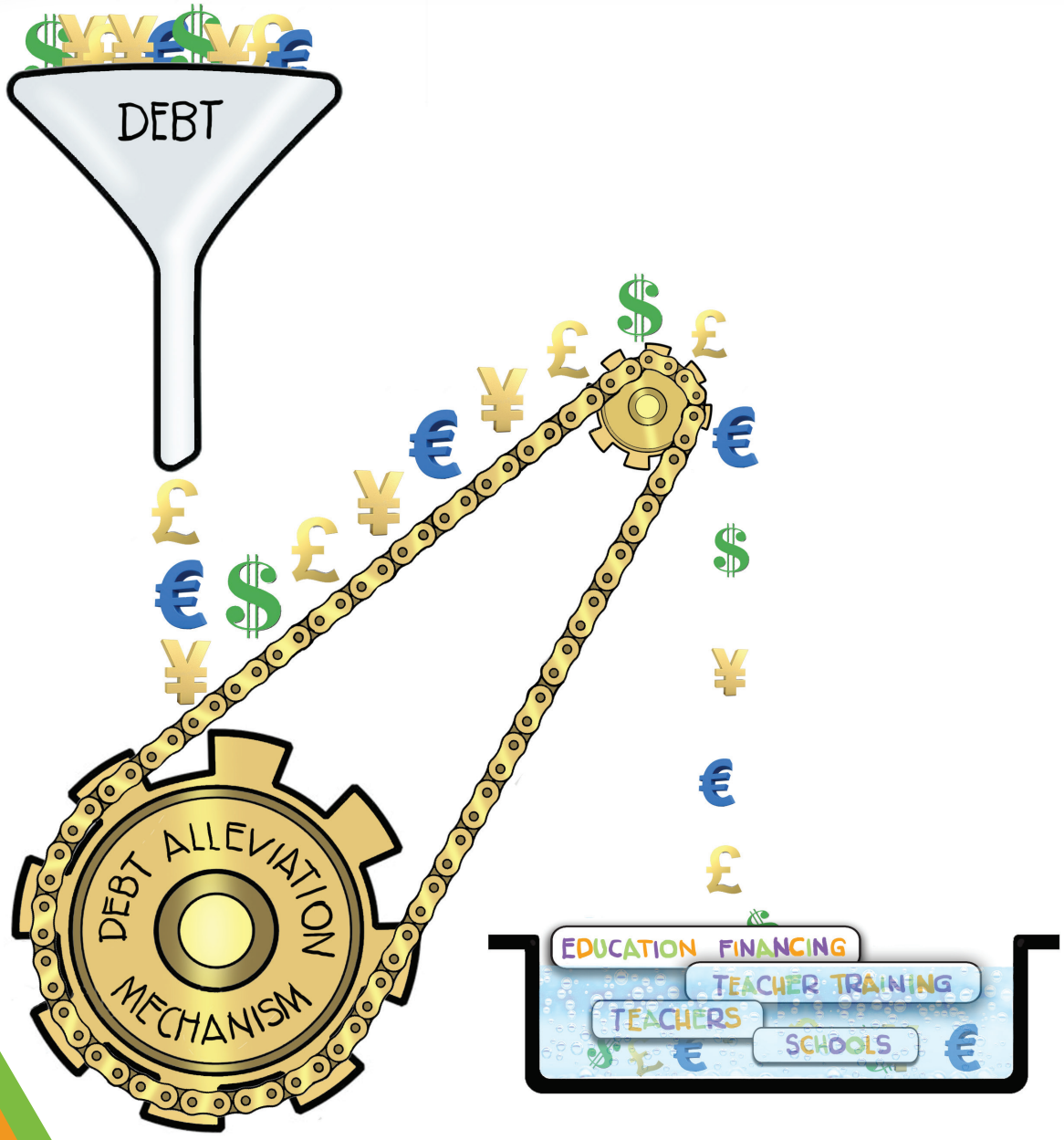
CAN DEBT ALLEVIATION MECHANISMS INCREASE NATIONAL EDUCATION FINANCING ?



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The opinions expressed in this publication are those of the authors. They do not claim to reflect the opinions or views of the Global Campaign for Education, ActionAid, Open Society Foundation, or their members.

Table of Contents

Acronyms

AAAA - Addis Ababa Action Agenda
AECID - Spanish Agency for International Development Cooperation
AFD - French Development Agency
AfDB - African Development Bank
AfDF - African Development Fund
ALSF - African Legal Support Facility
AMC - Advanced Market Commitment
CACs - Collective Action Clauses
CEDAW - Convention on the Elimination of all Forms of Discrimination against Women
CSO - Civil Society Organization
DAC - Development Assistance Committee
DCA - Debt Conversion Account
DCDB - Debt Conversion Development Bond
DMF - Debt Management Facility
DSF - Development Sustainability Index
DRM - Domestic Resource Mobilization
DRF - Debt Resolution Framework
DWM - Debt Workout Mechanism
DSA - Debt Sustainability Assessments
DSSI – Debt Service Suspension Initiative
ECB – European Central Bank
EFA - Education for All
GADN - Gender and Development Network
GCE - Global Coalition for Education
GDP- Gross Domestic Product
GER - Gross Enrollment Ratio
GNI - Gross National Income
ESS - Education Sector Strategy
FTI - Fast Track Initiative
HIPCs- Highly Indebted Poor Countries
HRIA - Human Rights Impact Assessment
IDA - International Development Association
IFF - International Financing Facility
IFI - International Financial Institution
ILO - International Labour Organization
IMF - International Monetary Fund
JDC - Jubilee Debt Campaign
L&LMIC - Low- and Lower-Middle Income Countries
LIC - Low-Income Countries
MDG - Millennium Development Goals
MDRI - Multilateral Debt Relief Initiative
NPV - Net Present Value
ODA - Official Development Aid
ODA - Overseas Development Assistance
OPEC - Organization of Petroleum Exporting Countries
PPP- Public Private Partnerships
PSI - Public Services International
PRSPs - Poverty Reduction Strategy Papers
PTR - Pupil-Teacher Ratio
PV - Present Value
PWYP - Publish What You Pay
SDG - Sustainable Development Goals
SDR - Special Drawing Rights
UN - United Nations
UNCTAD - United Nations Conference on Trade and Development
WB – World Bank

Annex I: Glossary of Key Terms and Concepts

Additionality - Extent to which a new input (action or item) adds to the existing inputs (instead of replacing any of them), resulting in a greater aggregate. To establish whether there is additionality, a with-without comparison must be made. Debt relief is fully additional (in a double sense) if freed-up funds come on top of both other donor aid interventions and the recipient country's budgetary resources that had already been reserved, and this compared to the situation where no debt relief is provided.

Aid fragmentation - a situation in which the number of donor-funded activities is large and their average value low. Brady deals - a series of operations in the beginning of the 1990s based on the Brady Plan (after U.S. Treasury Secretary Nicholas Brady). Here commercial (bank) creditors agreed with a number of (mostly Latin American) middle-income countries to swap private debt for bonds with a lower nominal value and/or reduced interest rates, so as to provide an element of debt relief. In principle, recipient countries had to demonstrate the willingness to implement sound economic policies, both fiscal and monetary, to qualify.

Budget support - aid modality whereby resources are provided directly to the government of the recipient country. These resources are then pooled with the government budget and can be spent according to the country's own priorities. Budget support can be restricted to part of the government budget (typically a sector as health or education, but also a spending category such as salaries) Concessional debt - refers to debt which involves favorable repayment terms for the debtor, involving long grace and repayment periods and/or below-market interest rates.

Conditionality - the use of conditions attached to a loan, debt relief, development aid or membership of international organizations, typically by the international financial institutions, regional organizations or individual donor countries.

Counter-cyclical - moving in the opposite direction of the overall economic cycle.

Debt Alleviation - debt relief and debt alleviation can be used interchangeably to refer to measures to reduce or refinance debt in order to make it easier for the borrower to repay it. Options for debt relief may entail forgiving a portion of the debt's principal, lowering the interest rate, or consolidating several debts into a single lowerinterest loan. There is a large set of debt alleviation mechanisms in international financing architecture. Amongst others, debt cancellation, debt restructuring, and debt swaps are some of the most frequently used to support LICs to deal with illiquidity and solvency problems.

Debt Cancelling - occurs when a creditor relieves a debtor from a debt obligation through a debt relief program or by filing for bankruptcy. 'Debt cancellation' is likely the most straightforward mechanism for debt alleviation. It is considered a last resort mechanism for countries facing significant debt distress situations due for example to war-related financial constraints or financial crises. This option was recently adopted by G20 countries to support LICs to navigate the health and subsequent financial crisis.

Debt Crisis - is a situation in which a country is unable to pay back its government debt. A country can enter into a debt crisis when the tax revenues of its government are less than its expenditures for a prolonged period. A debt crisis can lead to steep losses for banks, both domestic and international, perhaps undermining the stability of financial systems in both the crisis-hit country and others. This can hit economic growth as well as create turmoil in global financial markets.

Debt overhang - a situation in which excessive debt burdens lead to sub-optimal debtor government behaviour, reduced (domestic and foreign) private investment and depressed economic growth rates. Debt overhang has been said to work as a low-growth trap for highly indebted countries. The existence of this phenomenon is however subject to debate.

Debt Rescheduling - two main elements can be distinguished when conceptualising debt restructuring: debt rescheduling and debt reduction. Debt rescheduling, which can be defined as a lengthening of maturities of the old debt, possibly involving lower interest rates. Debt rescheduling implies debt relief, as they shift contractual payments into the future; and debt reduction, which can be defined as a reduction in the face (nominal) value of the old instruments. In simpler terms, Rescheduling refers to extending or lengthening a loan tenure, resulting in a revision of monthly instalment amounts in order to pay a lesser sum each month. Meanwhile, Restructuring involves changing the type or structure of your existing loan to help you improve your current cashflow.

Debt service - the payments of both interest and principal required on a debt over a given period of time, e.g. annually. Suppose country A has an outstanding debt of USD 100 million in nominal (face value) terms to country B, repayable over a period of 10 years with a grace period of 5 years and a nominal interest rate of 2 percent. In the first five years, the debt service that country A has to pay is only interest payments of 2 million a year; from the sixth year on, it repays both interest and principal, amounting to 22 million in the sixth year, and somewhat less in the following years (because interest is paid only on the amount of principal still outstanding). 103 Terms highlighted in bold within the text refer to separate entries.

Debt service relief – reduction of debt service due to a debt relief or debt cancellation operation. Using the same example as for the debt service entry, relieving country A of its debt service will then free up just USD 2 million in the first 5 years and USD 20 million plus (diminishing) interest payments on the outstanding principal in each of the following 5 years. The gains of debt service relief thus only materialize over time for country A. Simply summing all these debt service gains from the debt relief over the lifetime of the loan gives the total nominal debt service relief. This has to be distinguished from the net present value (NPV) of debt relief.

Debt Swaps - also called 'debt swaps for development' or 'debt conversions' are a debt relief mechanism in which the counterparts involved in a loan agree a set of conditions to secure resources that are no longer allocated for debt servicing to be invested in financing development. Debt swaps are likely to improve liquidity indicators, and when the financial resources are used to invest in the provision of social rights, notably the right to education, long-term development and growth impacts can be expected. Debt swaps mechanisms, however, face considerable challenges to make a positive impact on sustainable development in general, and in education financing, in particular as they do not alleviate the issue of solvency in the short term and are often associated with high set-up costs, which are likely to counterbalance a positive effect on liquidity.

Default - failure to make the required debt payments on a timely basis or to comply with other conditions of an obligation or agreement.

Defensive lending - Practice in which new loans are issued to highly indebted countries to allow them to stay current on debt service payments. In the past, both bilateral and multilateral donors have been accused of defensive lending.

Discounted debt - debt which is traded at a price below its nominal (face) value in the secondary market and gives a return closer to face value at maturity.

Donor Proliferation - a situation in which the number of donor channels through which Official Development Assistance (ODA) is delivered to a particular recipient country is large. Fiscal space - room in a government´s budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy.

External debt- is the portion of a country's debt that is borrowed from foreign lenders, including commercial banks, governments, or international financial institutions. These loans, including interest, must usually be paid in the currency in which the loan was made. External debt as percent of Gross Domestic Product (GDP) is the ratio between the debt a country owes to non-resident creditors and its nominal GDP and which require the debtor to pay principal and/or interest at some point(s) in the future. External debt is also referred to as foreign debt.

Fiscal space - room in a government´s budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy.

Fungibility - a situation in which aid recipients reduce their own resources in the sector or for the projects that receive aid and use them elsewhere. Almost all aid is fungible to a certain degree, although fungibility is believed to be most pronounced in instances of micro earmarking. Donor efforts can also be said to be fungible, for instance when debt relief is compensated by reduced ODA spending elsewhere.

Heavily Indebted Poor Countries (HIPC) Initiative - an agreement among official creditors, jointly launched by the IMF and World Bank in 1996 and designed to help the poorest, most heavily indebted countries to bring down their external debt to sustainable levels. The HIPC Initiative was extended and streamlined in 1999 with the introduction of the Poverty Reduction Strategy Paper.

Internal Debt - In public finance, internal debt or domestic debt is the component of the total government debt in a country that is owed to lenders within the country. The main sources of funds for internal debts are commercial banks and other financial institutions. Internal public debt owed by a government is part of the country's national debt. The government obtains finance not by creating it, but by borrowing it. The money created is in the form of treasury securities or securities borrowed from the central bank in local currency.

Micro-earmarking - refers to the desire of the donor to micro-determine and monitor the use of the funds. Typically, funds are placed in jointly managed counterpart funds, sometimes outside the government budget, using non-aligned (separate) implementation and monitoring mechanisms, bypassing the government's public system. Micro-earmarking can be considered part of the 'old' aid paradigm of project support (as opposed to sector and budget support).

Multilateral Debt Relief Initiative (MDRI) - an initiative launched in 2005, after G8 leaders pledged to cancel the multilateral debt of the world's most indebted poor countries. Under the MDRI, the IMF, World Bank, the African Development Bank and the Inter-American Development Bank committed themselves to cancel 100 percent of their (remaining) debt claims on countries that have completed the Heavily Indebted Poor Countries Initiative process.

Net present value (NPV) of debt relief – refers to the net present value (NPV) of debt service gain from a debt relief of debt cancellation operation, based on discounting all the debt service gains to the value of today, to take into account the time value of money. Allows to calculate correctly the gain for the debtor country of having this debt service cancelled, and allows to compare correctly the gain for the debtor (and the cost to the creditor) of, say, the cancellation of debt titles with the same face value, but different repayment terms/interest rates.

Net present value (NPV) of debt service - the stream of future debt service payments, discounted at a marketbased interest rate, most appropriately that interest rate at which the debtor country can raise these funds on its domestic market. NPV calculation takes into account the time value of money (the value of having to pay one dollar today is not the same as of that of having to pay it only in ten years' time) and is the standard method to appraise transactions that involve a long-term cash flow. The calculation of the NPV of debt service will allow comparing the cost of debt service for the debtor country of, say, debt titles with the same face value, but different repayment terms/interest rates.

Official Development Assistance (ODA) - refers to concessional financial or technical resources (grants, concessional loans and technical support) extended by government agencies of developed countries or official multilateral institutions to developing countries, with promotion of economic development and welfare as the main objective. ODA statistics are compiled by the Development Assistance Cooperation (DAC) of the OECD and used to compare and evaluate the generosity of donors.

Paris Club - an informal group of official creditors whose role is to find coordinated and sustainable solutions to the debt service difficulties experienced by debtor countries. The name results from the fact that the meetings of this group are often chaired by an official from the French treasury department.
Policy alignment - the principle of basing donor support on the national development and sector

strategies of the country receiving the support. Policy alignment aims at increasing country ownership and improving the sustainability of the programmes and projects supported.

Poverty Reduction Strategy Paper - a document setting out in detail a developing country's macro-economic, structural and social policies and programmes that will be pursued in the medium term. It is meant to be the result of a consultative process in which the developing country government, civil society and external development partners all participate. Since 1999, the preparation of a PRSP is a precondition to qualify for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and gain access to concessional IMF/World bank loans.

Private debt - is an umbrella term that refers to any debt accumulated by private businesses and individuals. When a privately-held company takes out a business loan, or when an entrepreneur borrows money from a family member, those are both examples of private debt. Private debt can take many forms, but commonly take the form of credit card debt, corporate bonds, business loans, or personal loans. The most prevalent type of private debt involves alternative financial institutions making loans to private companies. These institutions are referred to as "alternatives" because they stand outside the banking institutions that traditionally offered loans to businesses. Typical examples include business development companies (BDCs), debt investors and wealthy individuals.

Public debt - the term 'government debt', which is also called public, national, or sovereign debt, is any credit owed by a central government to creditors. Creditors can be any national person or institution within or outside the country. The former is called domestic debt and the latter foreign or international debt. Depending on a wide range of factors such as their levels of development and debt sustainability, governments may lend money from multilateral and bilateral organisms. Multilateral debt is owed to institutions owned by several organisations, individuals, or countries; and bilateral debt is owed to another government. Either global or regional, multilateral debt aims for 'mobilizing finance, knowledge, and expertise to address the biggest challenges faced by developing countries, including poverty and environmental problems.

System alignment - the principle of relying on the aid recipient's own institutions and systems for budgeting, managing, implementing, monitoring and evaluating development programmes and projects. System alignment is aimed at strengthening the public sector and long-term capacity building in the recipient country. It however requires that the donor has sufficient trust in the national system.

E. Introduction

1. About the Toolkit

a. Aims

This toolkit provides GCE members a set of detailed guidelines on how to develop policy and advocacy work to increase national education budgets through debt alleviation mechanisms. This toolkit helps GCE members explore and explain the connections between government debt alleviation and education financing. These connections between debt and education financing cannot be taken for granted. They are complex and context specific. Debt alleviation does not necessarily result in more financial resources for education being allocated. A positive impact on education financing is likely to depend on a large number of factors including the magnitude of the country's debt crisis and the extent to which the allocation of resources for the provision of free quality public education is considered in the negotiation of debt alleviation mechanisms (GCE, Debt Relief and Education Financing: Background Paper, 2020)

b. Target Audience

The primary audience for this toolkit is GCE Coalition members globally who are involved in policy and advocacy work as part of the campaign around debt mechanisms and education financing. Other audiences include community members, political leaders, relevant government ministry officials (mainly education and finance), Members of Parliament, Civil Society Organizations (CSOs), Relevant UN bodies, World Bank and IMF bodies, teachers and teachers unions, Parents Teachers Associations(PTAs), National Tax Associations (NTAs), students, researchers and any individual or organization that is involved in policy and advocacy work on education finance and debt alleviation mechanisms.

c. How Toolkit is Structured and Should be Used

This toolkit is user friendly and combines use of illustrations, infographics, scenario boxes and various boxes that break down the module into different parts. All these parts add up and contribute to understanding of the key learning areas as indicated in the summary. The Module title is followed by the Summary which outlines the key learning areas and outcomes. After the Summary, the user immerses themselves in the Scenario box, which socializes the module learning area(s) in the form of a character(s) in a story that humanizes the particular issue at hand. From this immersion, the user then interacts with the definition and context which provides the conceptual frameworks being applied to analyze the content. There are also sections that provide further explanations to improve understanding of the concepts. This is followed by either mechanisms that depict how those frameworks are applied or work, followed by case studies if necessary or relevant. Lastly comes the resources for further reading on the subject matter, with an exercise box that tests learning outcomes as the user proceeds to the next model. The exercise section combines both workshop and non-workshop settings that outlines activities users/advocates can undertake together.

d. Sections

This toolkit is divided into the following parts – Acknowledgements, Table of Contents, Acronyms, Glossary of Debt/Education related terms, Introduction (which outlines the aims, audiences and how the toolkit should be used) and Policy/Conceptual Background which provides thee context under which the work highlighted in the toolkit is being undertaken. The toolkit is also divided into Sections – Module 1 which traces the story of debt and how debt servicing affects service delivery; Module 2 describes Debt Alleviation Mechanisms and how they work; Module 3 establishes whether debt alleviation mechanisms can avail resources to increase national education budgets; Module 4 interrogates new ideas for financing education. Lastly, Module 5 tackles the advocacy and policy actions that education advocates can apply that can lead to debt alleviation and increasing national education budgets

Policy/Conceptual Background

The Covid-19 pandemic and subsequent emergency government responses to mitigate its impacts, notably lockdowns, have suddenly left billions of learners out of school. Their return to the classroom and the enrolment of those who were left behind by education systems before the pandemic, cannot be taken for granted. They depend on a large group of factors including the effective control of the disease and the allocation of financial resources to ensure inclusive and equitable quality education and lifelong learning opportunities for all. The ongoing health and financial crisis have not only made much more visible the profound structural inequalities that characterize our societies, but also put enormous pressure on the already scarce financial resources for education. To make things considerably worse for the less developed countries and the less disadvantaged members of society, countries already in very stressful financial conditions are struggling to invest in the provision of social services and guaranteeing the rights of their citizens because a significant part of their limited resources are allocated to debt servicing.

The Global Campaign for Education strongly believes that the allocation of domestic financial resources to pay debt servicing rather than ensuring people's basic human rights, will significantly impact countries' development in the short and long-term if no urgent actions to alleviate or cancel debt are taken. Recent evidence suggests that the international community's failure to provide upfront debt relief for countries whose financial resources have been allocated to tackle the pandemic, have forced a significant number of countries to cut public budgets. More specifically, analysis reveals that 40 out of 80 countries have implemented "off-setting expenditure cuts worth 2.6 per cent GDP in 2020". (Munevar (2020:2))

Against this background, the Global Campaign for Education considers of enormous importance to emphasize that financing of quality free public education is integral to the human right to education and is one of the central obligations of governments and the international community. In order to promote and defend quality education as a basic human right and to mobilize public pressure on governments and the international community to fulfil their commitments to provide free, quality inclusive, public education for all, the Global Campaign for Education seeks to launch a campaign to call for debt alleviation for those countries, especially low-and-middle income countries in debt crisis. GCE strongly believes that if emergency financial measures to support communities and families in countries struggling with the provision of fundamental rights, notably the right to education are not undertaken, billions of children will likely never return to school and their families and their future generations are likely to be trapped in intergenerational poverty.

Module

1

The Story of Debt:

Where did it come from and how does it look like?

Summary

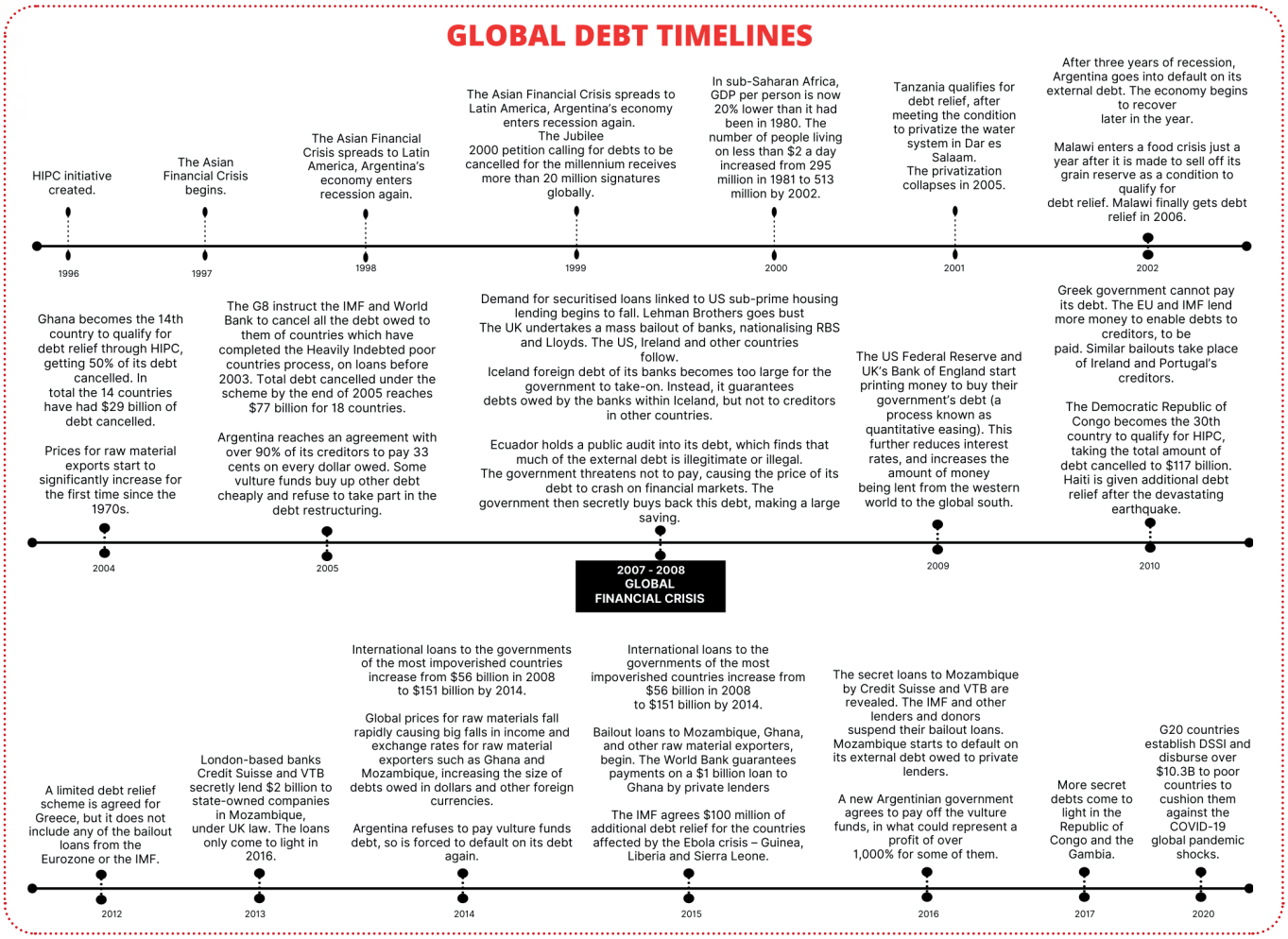
This module traces the origin of debt, defines debt crisis and offers an insight into how various stakeholders view, interpret and define debt. Debt servicing, which is a crucial aspect of this toolkit, is also defined with the use of infographics to bring out clearly the various underlying issues like debt servicing ratios. Finally, this module also highlights steps or indicators for identifying a country that is undergoing a debt crisis and where one can access countries' debt data/information.

By the end of this module, you will have;

- Understood the origin of debt crisis as we know it
- Familiarized with debt servicing payments and how to determine ratios to revenue
- Identified the various indicators for a country undergoing a debt crisis
- Established where to access countries' debt data/information

1. What is the origin of Debt Crises?

Between 1946 and 1972 there were only nine countries seeking assistance in fulfilling their contractual debt service - Argentina, Brazil, Chile, Ghana, India, Indonesia, Pakistan, Peru and Turkey. . (Gamarra, Pollock and Primo Braga, 2009, pg 36). During this period, the only worry the creditor countries had was, What if the debtors defaulted? In May 1956, the Paris Club was formed to help restructure debts between the debtors and their bilateral lenders, with Argentina becoming their first case. However, the Club's approach to debt relief was very impromptu, short term and on a case by case basis, and at prevailing interest rates. This meant there was no debt reduction in actual sense. Because of this, many debtor countries had to return to the Club on a regular basis – for example, Indonesia made 4 consecutive agreements with the Club in 4 years, between 1966-1970.(Cassimon, Essers and Fauzi, 2013, pg 8).



Source: (World Economic and Social Survey 2017)

When the Organization of Petroleum Exporting Countries (OPEC) quadrupled the price of oil in 1973, OPEC nations deposited much of their new wealth in commercial banks who loaned irresponsibly to developing countries. Meanwhile, as inflation rose in the U.S., they adopted extremely tight monetary policies that led to a worldwide recession. All these contributed to the debt crisis of the early 1980s

Developing countries were hurt the most in the worldwide recession. The high cost of fuel, high interest rates, and declining exports made it increasingly difficult for them to repay their debts, with Mexico declaring in August 1982 that it would not be able to continue debt service as scheduled, unless it received help through new loans or rescheduling. During the rest of the decade and into the 1990s, commercial banks and bilateral creditors (i.e., governments) sought to address the problem by rescheduling loans and in some cases by providing limited debt relief. Despite these efforts, the debt of many of the world's poorest countries remains well beyond their ability to repay it.

2. What is a Debt Crisis?

Scenario Box 1

Famaki is a very good farmer. His farm has the best soil and everything he plants grows very well on it. The last planting season, he harvested 10kg of tomatoes, 15kg of groundnuts, 31kg of carrots and 40kg of onions. He would sell his farm produce and use the money to buy clothes, food, medicine for his family and pay school fees for his children (that were supposed to be zero)

One planting season, the rains delayed and he lost most of his crop. His harvest was not enough to meet his family needs and so he decided to borrow from Siloki the local shylock. Siloki asked Famaki "What is your most precious item that you can give me as a guarantee for this money you want?" Famaki said " My farm". Siloki and Famaki agreed that every time he did not make a payment at the agreed time, Siloki would take a bucket of soil from his farm.

Over a period of time, Famaki's farm got smaller, the money he made from selling his crops was not enough to pay Siloki and meet the needs of his family and pay for his children's education. Famaki's farm dwindled in size until he could not even manage to get a bucket of soil for Siloki.

a. Definition

A Debt Crisis is a situation in which a country is unable to pay back its government debt. A country can enter into a debt crisis when the tax collected by its government is less than its expenditures for a prolonged period. If the government debt becomes too large, there is an increase in the cost of borrowing for that government. When governments do not pay their debt, pushing the cost of borrowing to higher levels, it becomes more and more difficult to roll over its existing debt and may eventually default and enter into a debt crisis.

b. Principles

"Left unchecked, debt distress is a dagger through the heart of global recovery. Countries cannot build back if they are held back. The international community has taken a few positive steps, but it is time for a quantum leap in support."-UN Secretary-General, 4 October 2021-

GCE conceptualizes the debt crisis as a situation in which the allocation of domestic financial resources to ensure basic human rights, notably the right to education, health, housing, and food, is falling short because rather than investing in provision of social services considered to be basic human rights, countries are paying debt it owes at very high interest rates.

Action Aid views the debt crisis as an obstacle to developing countries trying to meet the UN's Sustainable Development Goals (SDGs) by the target year of 2030. UNCTAD has done calculations for a sampling of 31 developing countries in their projected efforts to achieve just the first four of the 17 SDGs (on poverty, food security, health, and education) and found that obtaining the required finance "would result in an increase of public debt-to-GDP ratios from around 47% at present to no less than 185%, on average, if current expenditure and financing patterns prevail. Alternatively, to achieve these SDGs without an increase in existing debt-to-GDP ratios by 2030, developing countries would have to grow at an average annual rate of 11.9% per year. Clearly, neither scenario is remotely realistic." (Who Cares for the Future? Action Aid, 2020 pg. 38)

c. List of Resources for Additional Reading

To expand your understanding of Debt Crisis, here are recommended resources for further reading;
Out of Service:

- How Public services and human rights are being threatened by the growing debt crisis, Iolanda Fresnillo, February 2020 - https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/533/attachments/original/1590692297/Out_of_service.pdf?1590692297
- What is the International Debt Crisis? - https://www.usccb.org/resources/what-international-debt-crisis
- World Economic and Social Survey, 2017 - https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/WESS_2017_ch3.pdf
- Defuse the Debt Crisis, Lessons to be Learned From Debt Relief in the Past – The Cases of Ghana and Mozambique - https://www.bothends.org/uploaded_files/inlineitem/1111209_LR_brochure_Jubilee.pdf

3. Understanding Debt Servicing

a. Definition

Debt servicing are payments made by debtor countries to satisfy a debt obligation, including principal, interest and any late payment fees. Debt servicing to government revenue compare servicing of external debt and domestic interest as a percentage of government revenues. Similarly, Debt-to-GDP ratio compares a country's public debt to its GDP

b. Understanding Debt Servicing Better

The standard source for debt statistics is the IMF/World Bank debt sustainability analyses (DSAs), which UNCTAD has criticized as not taking into consideration, longer-term developmental goals, such as raising living standards or more specific goals such as the SDGs. Jubilee Germany/Erlassjahr's annual Global Sovereign Debt Monitor uses a more considerate standard which takes into account the impact of debt payments on development and human rights: For IMF, if the money is in the treasury, the debt is considered sustainable, regardless of the impact of using it to pay debt instead of providing services for the population. The critical question is therefore what is the maximum proportion of revenues that a country can spend on debt servicing without compromising the social rights of its citizens? IMF recommends between 9-15% of government revenue. Research conducted by the UK campaigning and Jubilee Debt Campaign (JDC) policy group in March 2018 shows that developing country external debt payments increased 60% just from 2014 to 2017. Between 2010 and 2018 it grew 85% and that 21 countries were spending over 20% of their government revenue on debt service in 2018. JDC has proposed a median 12% of government revenue as an acceptable threshold for debt servicing.

c. How Debt Servicing Affects Public Services?

1. Using data available from the Debt Sustainability Analyses (DSA), JDC examined 60 countries of those 63 with adequate data and established that;
   a) *in the 30 with the highest debt payments — (over 13% of government revenue) — real public spending per person fell by 6% between 2015 and 2018.*
   b) *in the 30 countries with debt payments under 13% of government revenue, public spending per person grew by 14%* (Who Cares for the Future? Action Aid, 2020 pg 38)

2. Further to this, JDC selected 16 of the 30 low-spenders on debt and 16 of the 30 high-spenders and tracked their public spending as a percentage of GDP in 2015, 2019, and projected for 2023 or the latest year available and found that;
   a) *12 of the 16 low-spenders on debt servicing experienced high expenditures*
   b) *2 of the 16 high-spenders on debt servicing experienced high expenditures,* ***meaning higher spending on debt means lower spending on social services.***

3. To demonstrate what excessive debt servicing is costing countries in terms of resources available for public services, JDC estimated how much extra cash countries would have on hand to add to their overall budgets for public services (including water and others) in 2019 if their debt servicing was reduced to 12% of government revenues (in countries spending more than that in 2019).

4. There are also slight decreases in government health and education expenditures, as well as in social protection indicators, between 2014 and 2016, the latest data available for country groups and regions. (World Development Indicators database, World Bank, December 2019). At a country level, increasing debt payments could already be having negative impacts on education expenditure. Only 43 out of 121 low- and middle-income countries have data available on government expenses on education (as a percentage of GDP) for the period 2015 to 2017 (World Bank World Development Indicators) of which 33 saw increases in their debt service payments (as a percentage of GDP) over the same period. Almost two thirds of the countries with debt service increases between 2015 and 2017 saw their government education expenditure as a percent of GDP decrease.

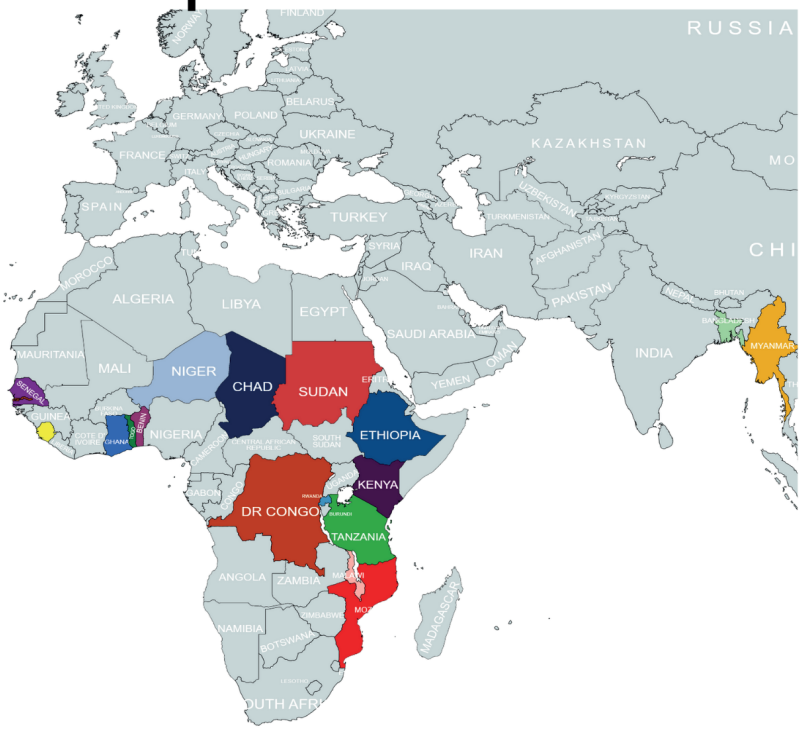
d. List of Resources for Additional Reading

To expand your understanding of Debt Crisis, here are recommended resources for further reading;

- Out of Service: How Public services and human rights are being threatened by the growing debt crisis,
- What is the International Debt Crisis?
- World Economic and Social Survey, 2017
- Defuse the Debt Crisis, Lessons to be Learned From Debt Relief in the Past – The Cases of Ghana and Mozambique

Country	Debt Service
Sudan	85.97
Tanzania	19.54
Ghana	59
Senegal	18.43
The Gambia	51.8
Myanmar	16.84
Zanzibar	50.99
Niger	16.53
Sierra Leone	42.99
Benin	16.19
Congo-Brazaville	42.65
Togo	15.68
Kenya	35.97
Chad	14.7
Bangladesh	29
Rwanda	14.56
Mozambique	26.54
Ethiopia	12.67
Malawi	20.28

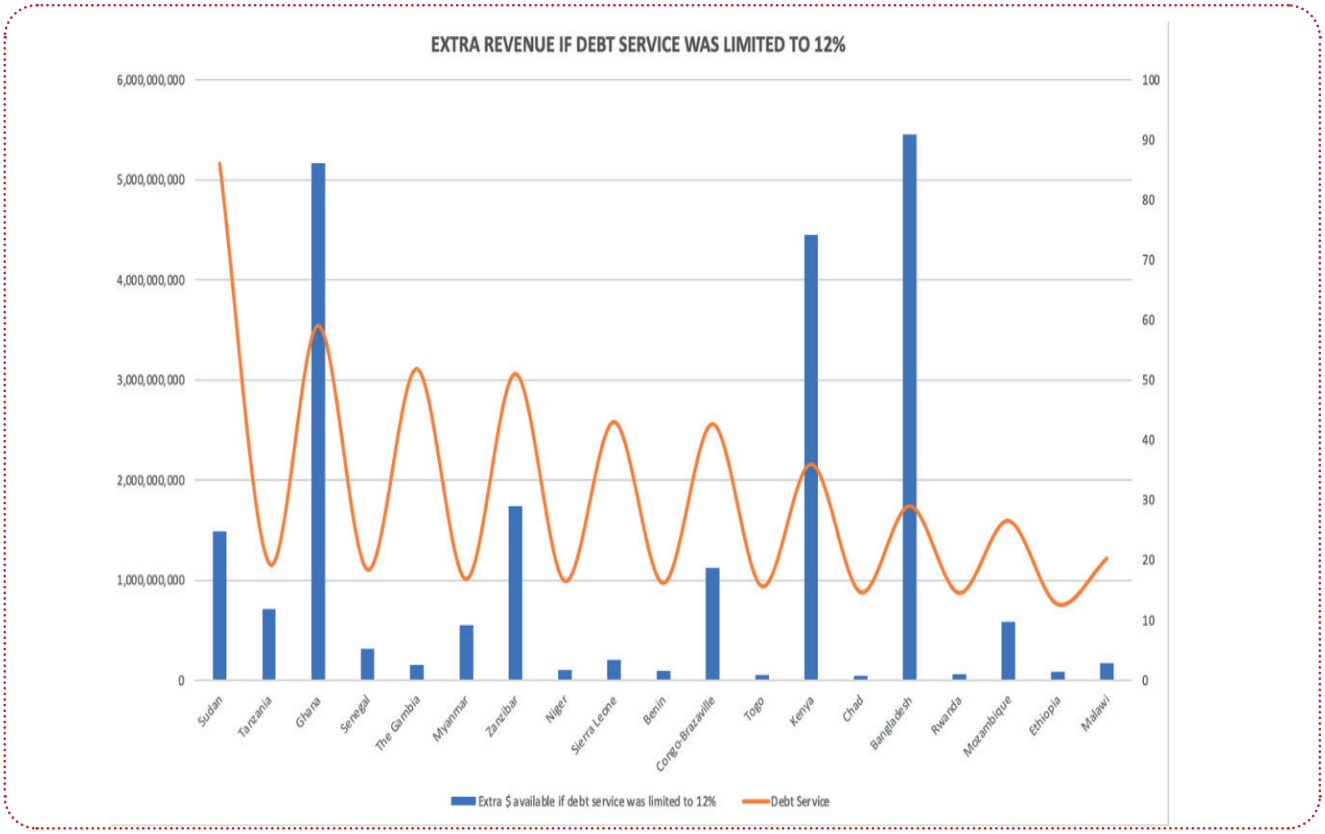
Government debt servicing as per % of revenue



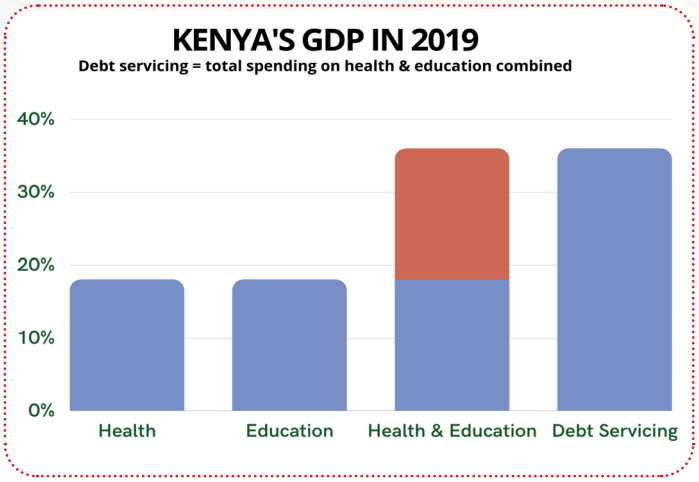
e. Infographics/Illustrations of debt servicing data from selected countries

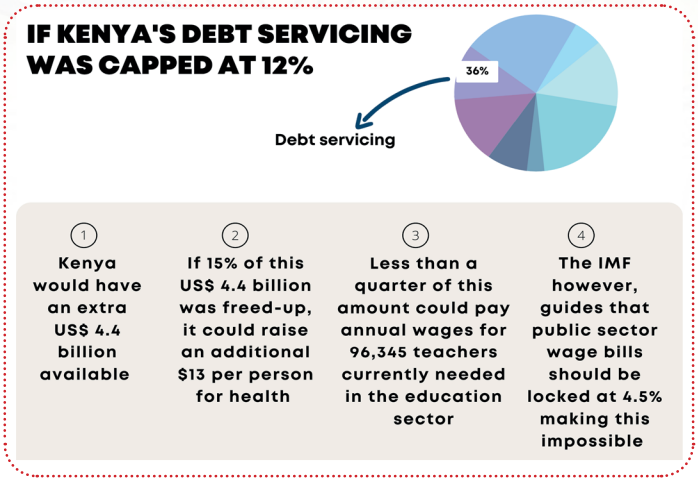
1. The levels of government revenue of selected countries allocated for debt servicing

2. Extra revenue if debt servicing was limited to 12% of government revenue "(as proposed by Action Aid based on research by Jubilee Debt Campaign (JDC) in 2018



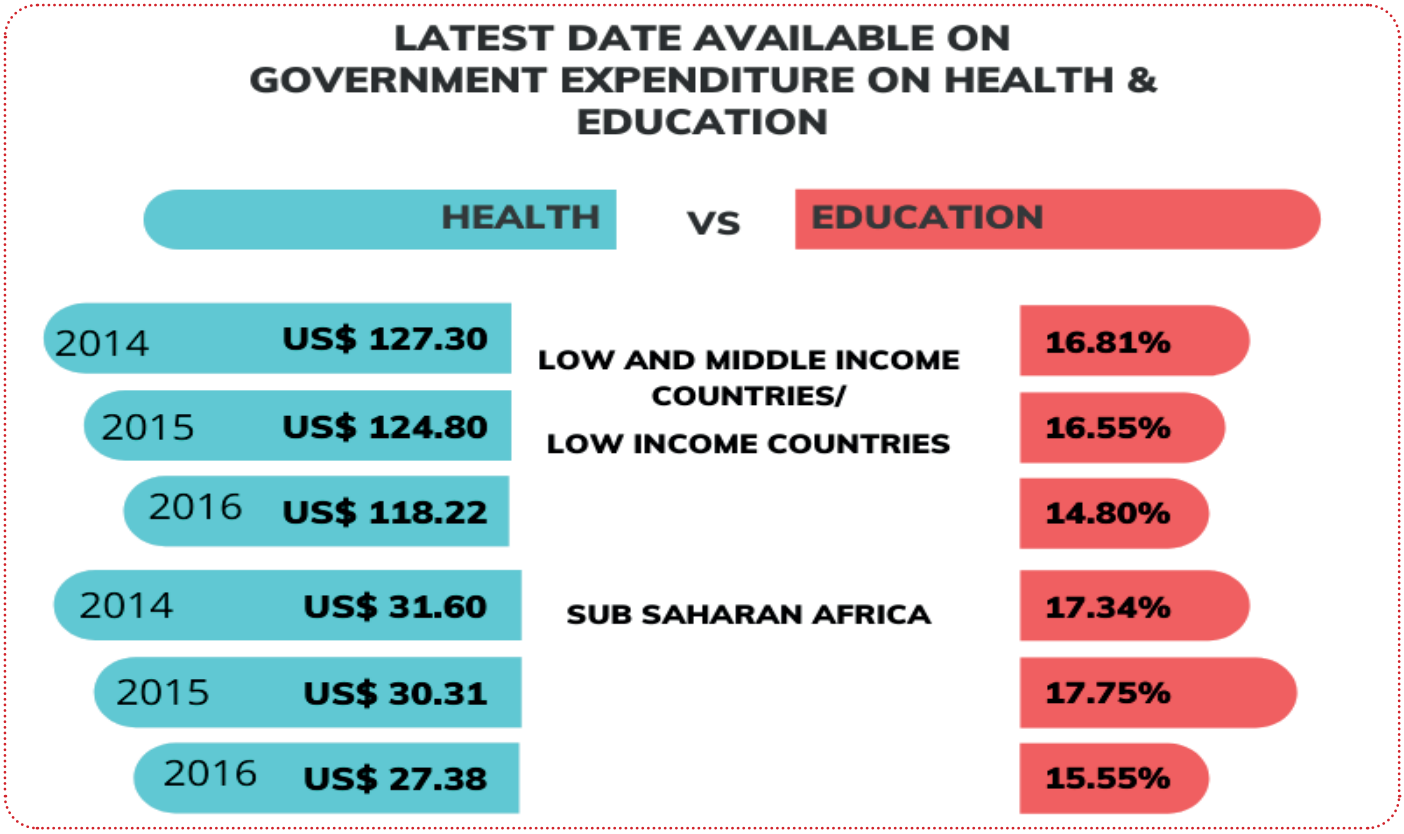
3. Infographics/illustrations to show impact of levying the 12% of revenue to debt servicing on social expenditure like education in Kenya (real public spending per person)





Source:([Who Cares for the Future: Finance gender responsive public services!, Action Aid, 2020](#) pg 47)

4. Government expenditure on health, education and social protection



(Out of Service, Fresnillo, 2020 pg. 27)

4. How to identify if a country is in debt crisis/distress?

a. Indicators of a Debt Crisis

i) Debt-to-GDP

One of the most widely used indicator to assess government debt problems is the total debt as a proportion of a country's global domestic product. According to the Jubilee Debt Campaign (JDC), it does not consider interest payment of the debt or how much revenue tax a government collects to pay the debt.

ii) Government external debt service as a proportion of revenue

JDC recognizes this as a more accurate measure. It measures all government debt payments, including principal debt and interest, which leave the country, as a proportion of government revenue.

iii) External debt service

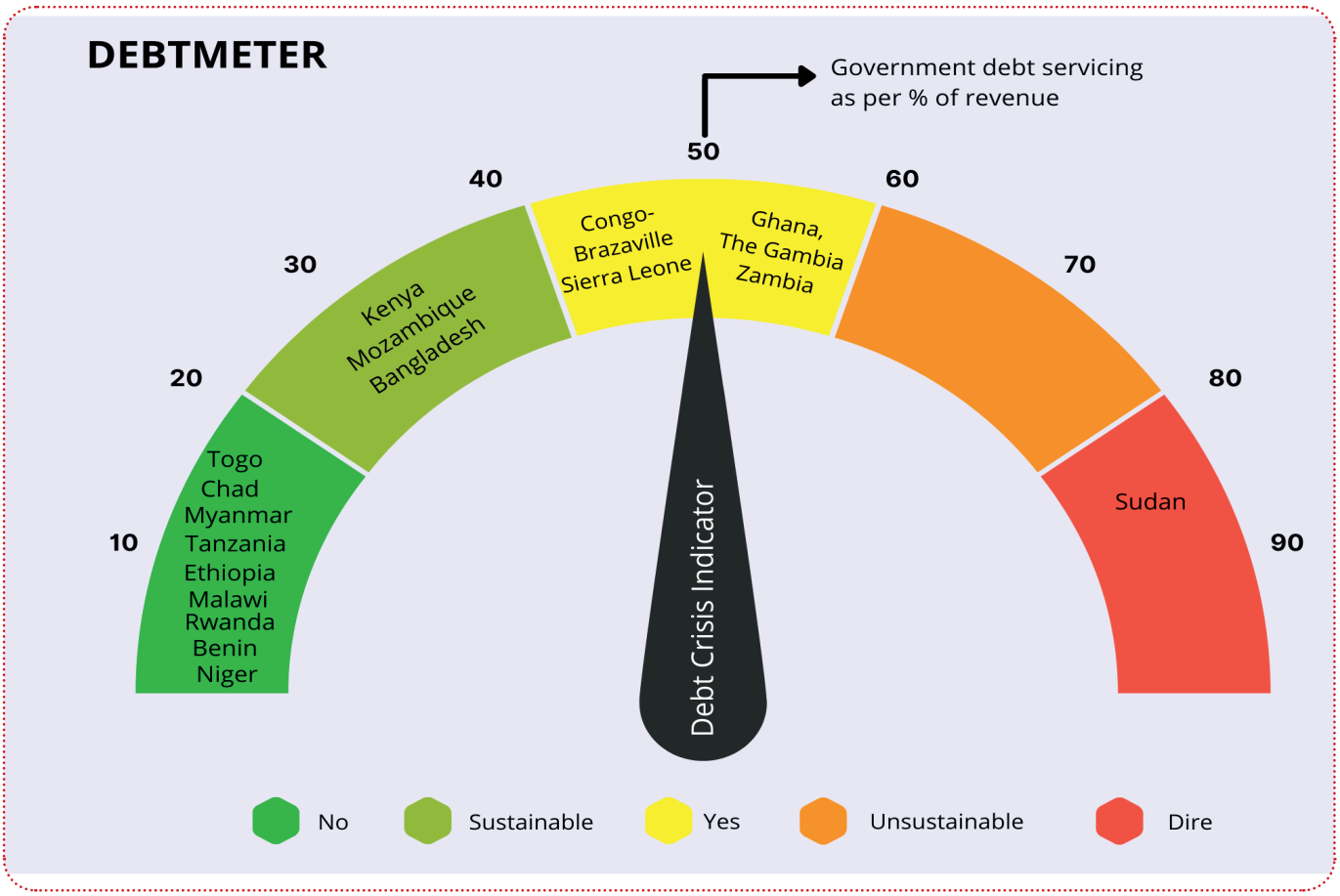
If this is higher than 15 - 20% of government revenue, it indicates a government has a debt problem which could lead to government spending cuts, the imposition of an IMF programme or a default on the debt.

iv) Debt service ratios as indicators of a country's debt sustainability

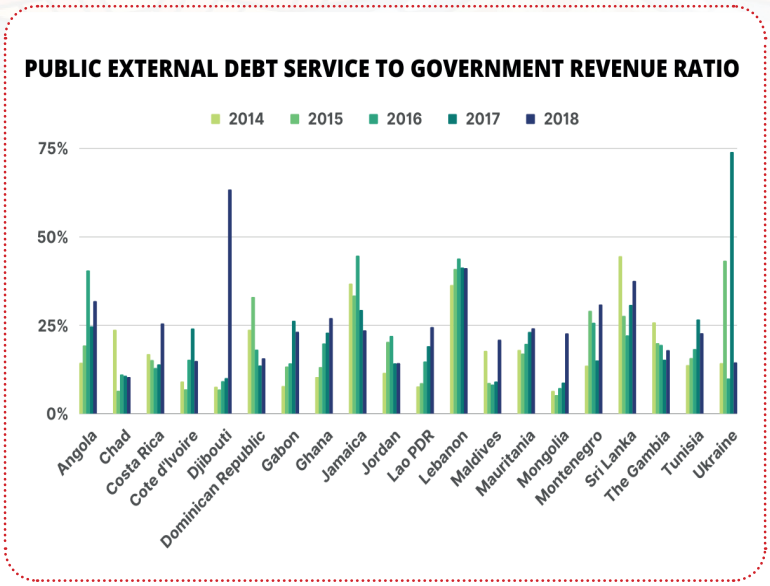
SDG indicator 17.4.1 measures "debt service as a proportion of exports of goods and services" – it reflects a government's ability to meet external creditor claims on the public sector through export revenues. It falls or increases depending on increase or reduction in export earnings; and reduction or increase in debt servicing costs; or a combination of both. If this ratio reduces persistently, it signals an inability to generate enough foreign exchange income to meet external creditor obligations on a country's PPG debt, and thus potential debt distress.

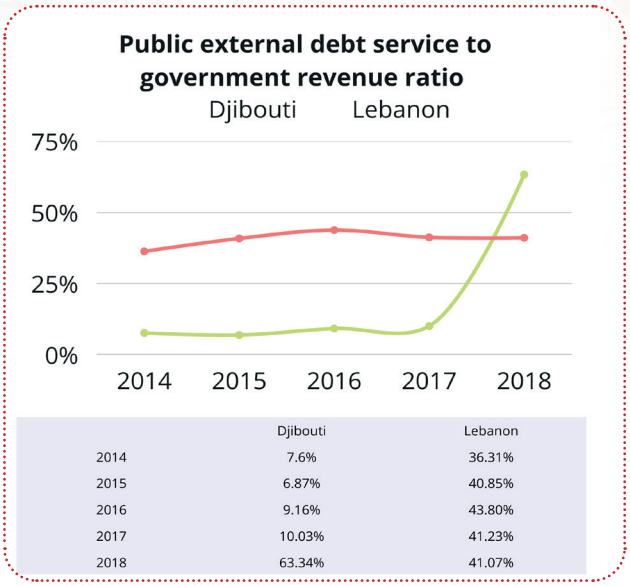
b. Infographics/Illustrations of below data from selected countries

i. Infographics of debt servicing ratios (what governments spend on debt servicing compared to their revenue) to illustrate debt crisis ("debtmeter")



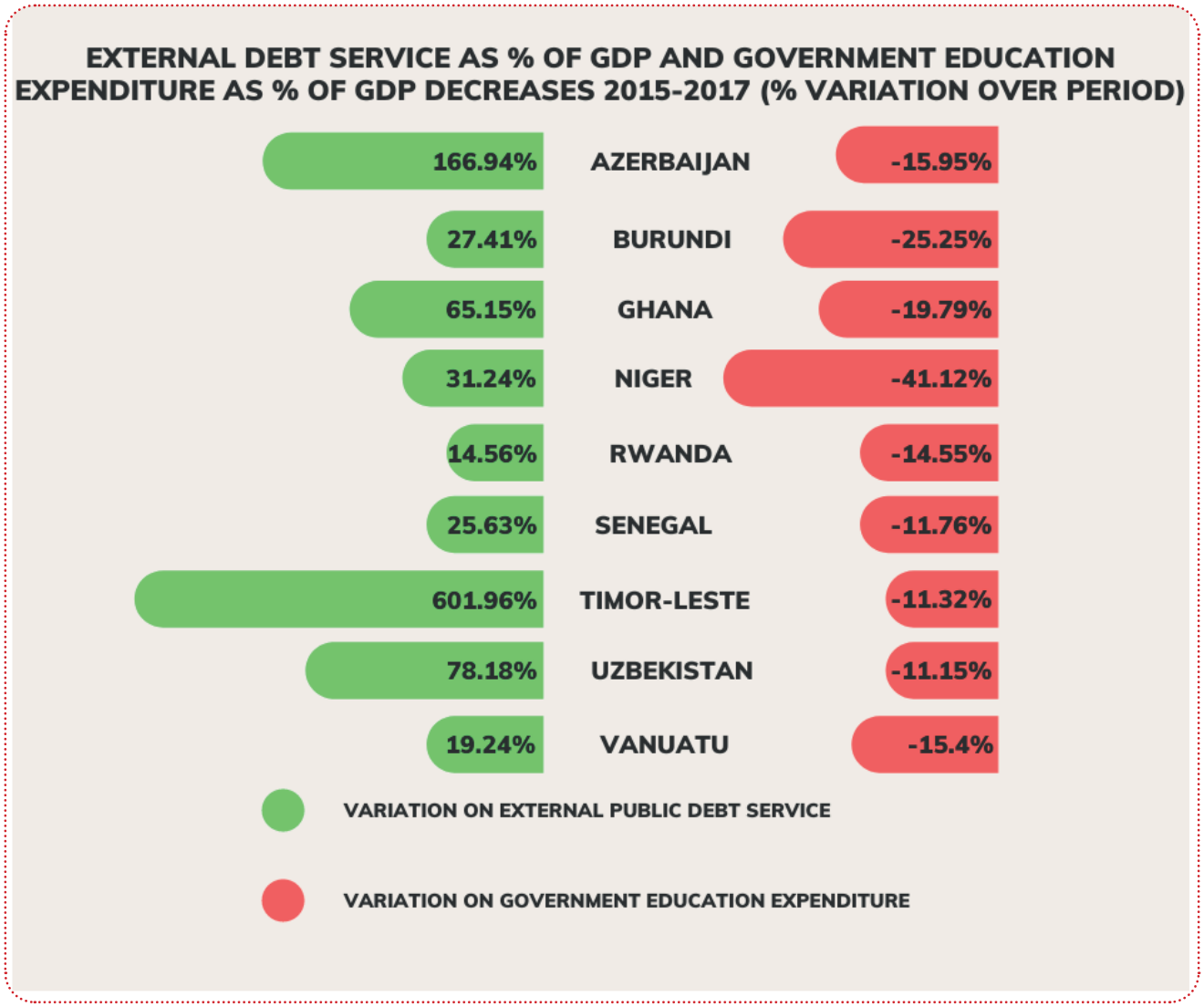
ii. *Infographic/illustration of government external debt service as a proportion of revenue as a more accurate indicator (to feature Djibouti & Lebanon) (Source: Out of Service pg 26, Table 2)*





	Djibouti	Lebanon
2014	7.6%	36.31%
2015	6.87%	40.85%
2016	9.16%	43.80%
2017	10.03%	41.23%
2018	63.34%	41.07%

iii. *Infographics/illustrations of data to contrast debt servicing ratios (what governments spend on debt servicing compared to education)*



(Source: Source: Eurodad based on International Debt Statistics and World Development Indicators (World Bank), December 2019)

5. Where to get Country Debt Data

a) The standard source for debt statistics is the IMF/World Bank debt sustainability analyses (DSAs). The World Bank Group and the IMF work with low-income countries to produce regular (DSAs), (https://www.imf.org/en/Publications/DSA?country=NGA&fm=&fy=&tm=&ty=#search-section) which are structured examinations of developing country debt based on the Debt Sustainability Framework. The Debt Sustainability Framework uses one template for both external debt and for public sector debt. The debt concept used in the template focuses on the present value (PV) of debt. Find some examples of country data; Niger's DSA Solomon Islands's DSA Nepal's DSA

b) IMF's Global Debt Database (GDD) is a unique dataset covering private and public debt for virtually the entire world dating back to the 1950s (https://www.imf.org/external/datamapper/datasets/GDD). Here is a list of indicators one can find in this dataset;

- Private Debt (1950-2020) Private debt, loans & debt securities as a % of GDP Household debt, loans & debt securities as a % of GDP Non-financial corporate debt, loans & debt securities as a % of GDP Private debt, all instruments as a % of GDP Household debt, all instruments as a % of GDP Non-financial corporate debt, all instruments as a % of GDP
- Public Debt (1950-2020), Central government debt, General government debt, Non-financial public sector debt, Public sector debt.
- This data set is also interactive and one can add/remove different countries' data and analyze/compare trends using graphs– for example https://www.imf.org/external/datamapper/CG_ DEBT_GDP@GDD/BGD/ESP/SGP/MEX/HND/DZA/AFG/ARM

c) The World Bank provides data for the International Debt Statistics (IDS) which covers over 120 low- and middle-income countries, Quarterly debt data including Quarterly External Debt Statistics (QEDS) for more than 130 countries, Quarterly Public Sector Debt (QPSD) statistics for around 100 countries and the Joint External Debt Hub (JEDH) (https://www.worldbank.org/en/programs/debt-statistics)

d) Jubilee Debt Campaign (JDC) portal compiles key statistics and analysis on the debts of countries and governments (https://data.jubileedebt.org.uk/). One will find **JDC/IMF risk analysis, government external debt payments as a proportion of revenue, net creditor/debtor, private external debt as a proportion of GDP, current account balance, change in government spending per person and who the government debt is owed to**.

e) Country Budget Policy Statements (BPS) and Budget Review and Outlook Papers (BROPs)

f) The IMF is providing financial assistance and debt service relief to member countries facing the economic impact of the COVID-19 pandemic financed by the Catastrophe Containment and Relief Trust (CCRT). IMF Lending Tracker (emergency financing request approved by the IMF Executive Board) https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

g) As part of the Fund's increased transparency, the tentative calendar of the formal meetings and seminars of the Executive Board for the next seven days is shown below.
IMF Executive Board calendar https://www.imf.org/external/NP/SEC/bc/eng/index.aspx
IMF Factsheet: The IMF's Rapid Credit Facility (RCF)
https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/08/Rapid-Credit-Facility

IMF Factsheet: The IMF's Rapid Financing Instrument (RFI)
https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/19/55/Rapid-FinancingInstrument

h) World Banks International Debt Statistics https://datatopics.worldbank.org/debt/ids/ contains data for low- and middle-income countries that report public and publicly guaranteed external debt to the World Bank's Debtor Reporting System (DRS). These include key debt ratios and the composition of external debt stocks and flows for each country.

6. Conclusion

According to the IMF, already 47 per cent of low-income countries are in debt distress or are at high risk of debt distress, which means they have already defaulted on some debts or are at high risk of defaulting. This assessment is made under a definition of debt sustainability that turns a blind eye to the debt service impacts on public service provision and human rights. Debt service is increasing across the global south and absorbing larger portions of government revenue, leaving smaller fiscal space for public services. And most worryingly, IMF projections show that, while debt levels will still keep on growing over the coming years, government expenditure will suffer a continuous decrease until 2024 in all regions, reaching a historical minimum government expenditure in sub-Saharan Africa of only 20.74 per cent of GDP (from 23.01 per cent in 2014). In Latin America and the Caribbean, government expenditure will also suffer a reduction from 33.76 per cent in 2014 to 29.85 per cent in 2024, and in the Middle East and Central Asia from 32.96 per cent in 2014 to 29.82 per cent in 2024. (IMF (2019) World Economic Outlook)

At a country level in the Democratic Republic of Congo, government expenditure has diminished from 61.7 per cent of GDP in 2014 to 22.5 per cent of GDP in 2018. Similarly, Mozambique has cut its government expenditure from 42.5 per cent of GDP in 2014 to 31.1 per cent of GDP in 2018, and IMF projections show that it will keep going down to 26.9 per cent in 2024. Grenada also suffered a decrease in government expenditure from 29.1 per cent of GDP in 2014 to 22 per cent in 2018, and is expected to reduce this ratio even more, down to 20.9 per cent in 2021. All three countries have been struck by debt crises recently. (Out of Service, Fresnillo, 2020, pg 14)

Looking specifically at education expenditure (designated by the UN system as one of the indicators for the Progress towards the Sustainable Development Goals report), there are examples of countries where resources to education services are decreasing. For instance, in Côte d'Ivoire, government expenditure in education as a percentage of GDP has decreased from 21.76 per cent in 2014 to 18.62 per cent in 2017, and the government expenditure per student, in primary education has decreased from 15.7 per cent of GDP in 2015 to 13.05 per cent of GDP in 2016. The Gambia – a country that the IMF has assessed to be in debt distress – also decreased its government expenditure on education from 17.61 per cent of GDP in 2010 to 11.75 per cent in 2014 and 10.35 per cent in 2016. (Global SDG Indicators Database, September 2019)

Growing debt levels and increasing debt service payments are among the factors leading to a decrease in public expenditure. Faced with the realty of shrinking resources, governments are driven to free up resources from the general budget for debt service payments through public spending cuts, in response to the dominant neoliberal mindset and/or advice from the IMF and other IFIs. Instead of finding a fair and sustainable solution to the debt crises, governments place the costs of the adjustment on their populations and thus jeopardize their well-being. Moreover, instead of solving debt unsustainability and contributing to economic recovery, austerity pushes countries into recession, dampens demands, reducing GDP and, consequently, the country's capacity to carry debt burdens even further. (Responsibility for complicity of international financial institutions in human rights violations in the context of retrogressive economic reforms (A/74/178), July 2019)

In the end, government spending cuts in a time of crisis when public services and social protection are most needed, result in a high risk of human rights violations. The fiscal choices that prioritize servicing increasing debt payments, such as adopting austerity measures and public service cuts, have substantial gendered impacts. According to their commitments to the human rights framework and, specifically, commitments to gender equality, states should prioritize fiscal policies that provide sufficient resources for the provision of universal quality public services, ensuring that fiscal policies promote redistribution, fight inequalities and do not increase the burden on women (Montúfar, Veronica (2019))

Exercise 1: Increasing understanding of Debt Crisis, Debt Servicing and Debt Distress Indicators

Aim

To increase understanding of Debt and how it affects provision of public services that are considered to be human rights.

Activity

In this exercise users are asked to review the Scenario at the beginning of the Module and respond to a series of questions. The questions are merely guidelines to make the users reflect on the issues at hand and begin to think about how debt affects lives and at the same time gauge the user's current knowledge levels

Step 1: After reviewing the Scenario, identify the debtor, the creditor, the principal, interest, terms of payment and duration of payment

Step 2: Review the definitions and explanations of debt in the module and answer the following questions:

- What is the origin of Famaki's debt situation? What caused it?
- Is Famaki experiencing a debt crisis? Why?
- Are the terms of payment of the loan that Siloki proposed for Famaki reasonable and fair? Why?
- How has this situation affected Famaki and his family?
- What should Famaki do? Who can help him?

Step 3: Review the infographics and reflect on your country's experience and situation and answer the following questions (you can also locate your country's debt data from the sources provided in section 5):

- Is your country undergoing a debt crisis? Why?
- What is the level of resources allocated to debt servicing compared to government revenue?
- What is the level of resources allocated to debt servicing compared to Education? Health? Water? Housing?
- Whether and how the debt crisis -if any- is affecting the protection and fulfilment of the right to education in the country?
- What should happen for this situation to change?
- What can you do to make this change happen?

Step 4

Adapting the exercise for a workshop setting

- If in a workshop setting, ask participants to role play the scenario and afterwards break into small groups to answer the questions in Step 2. The answers can be written on a white board or flip chart (15 mins)
- Place participants in 5 groups and provide them with 5 selected countries' debt data to analyse (20 mins)
- In their groups, they answer the questions in Step 3 and write down their answers in post it notes.
- Facilitator writes the Questions on flip chart and asks participants to stick their post it notes under each question (15 mins)
- Plenary discussion where participants compare their responses to Step 2 questions with Step 3 questions to draw parallels between Famaki's situation and the 5 countries' situation. With special emphasis on what should be done and their role in it

Special emphasis should be put on what should be done to correct the situation and the participants' role. These will be referenced later in the Planning Advocacy module.

Module

2

Debt Alleviation Mechanisms:

What are they and how do they work?

Summary

In this module, an in-depth analysis of debt alleviation mechanisms in general that have been applied to manage the debt burden by countries will be made. Debt Restructuring, Debt Swaps, Debt Cancellation, Debt Standstills are among the widely available mechanisms that most countries in debt use to negotiate fiscal spaces for their economies in order to provide essential public services. The module also offers insights into the workings of these mechanisms and case studies that highlight how different countries have applied them.

By the end of this module, you will have;

- Understood how the different debt alleviation mechanisms work
- Understood how different countries have used them in the past
- Understood their limitations in creating fiscal space
- Recognized the importance of public debt sustainability

1. Introduction: The Addis Ababa Action Agenda

The Addis Ababa Action Agenda was adopted at the Third International Conference on Financing for Development (Addis Ababa, Ethiopia, 13-16 July 2015) and subsequently endorsed by the UN General Assembly in its resolution 69/313 of 27 July 2015. The Action Agenda establishes a strong foundation to support the implementation of the 2030 Agenda for Sustainable Development. One of its key outcomes was acknowledging Borrowing as an important tool for financing sustainable development, including the sustainable development goals, and further affirming the importance of debt restructurings being timely, orderly, effective, fair and negotiated in good faith with the aim to restore public debt sustainability, while preserving access to financing resources under favourable conditions.

2. Debt Sustainability

Debt sustainability is evaluated in terms of the repayment ability over time of a country's debt. Often, this is a period of about 20 years, according to National Treasuries of various countries. Common debt sustainability indicators include:

a) Total public debt to GDP ratio - often used to measure a country's ability to repay its debt. It describes the proportion of a country's public debt relative to its total economic output.

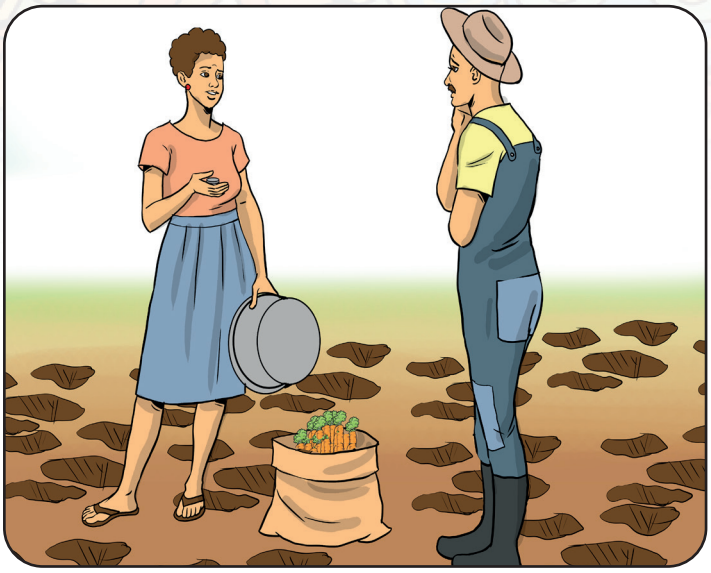
b) Debt repayment bill to ordinary revenue ratio - this is the proportion of a country's revenue that goes to settle its debt obligations each year. It ensures the country keeps an eye on how much of its resources are available for provision of basic services after the debt bill is settled. All recurrent expenditure depends on what remains after the country has allocated resources for its debt repayment obligation that falls due within a particular financial year.

c) Debt repayment to export ratio - this measure is useful to gauge the capacity of a government to repay its debt especially in scenarios where most of the debt stock is in foreign currency. A country must engage in business that generates foreign exchange so that it is able to settle its foreign currency-based debt. Low export business in a country relative to what it owes could create a debt repayment problem for the country

Famakis Dilemma

Scenario Box 2

After making the decision to obtain a loan from Shiloki, life was never the same again for Famaki and his family. His farm was almost gone and the family was now relying heavily on the income from his wife's food selling business . Food, clothes and school fees for their children became too much of a burden, as all the little money they could still make from his farm and her business was not enough to pay off the loan and also provide for their family. They decided to approach the local village council for help. As they explained the situation to them, they learnt that there were others like them in the same situation, who owed a lot of money to the Shilokis. The village council invited all the Shilokis and Famakis to a meeting to find a solution to the many problems that the village was experiencing as a result of the loans. During that meeting, the Shilokis listened to the petition from the Famakis as presented by the village council. The Famakis' petition was that the Shilokis could i) Forgive their loans ii) Stop the payments until the Famakis' situation improved iii) Increase the amount of time needed for them to make payments and reduce the interest being charged or iv) Allow other well-wishers to buy the loans from the Shilokis on their behalf. The meeting ended on a good note when the Shilokis agreed to negotiate with their respective Famakis on the best options as petitioned by the village council.



2. Understanding Debt Restructuring

a. Definition

Sovereign debt restructuring is an exchange of outstanding government debt, such as bonds or loans, for new debt products or cash through a legal process (Das, Papaioannou and Trebesch 2012). To constitute a debt restructuring, one or both of the two following types of exchange must take place:

i) debt rescheduling - which involves extending contractual payments into the future and, possibly, lowering interest rates on those payments;
ii) debt reduction - involves reducing the nominal value of outstanding debt.
Restructurings often occur after a default, but it is also possible to conduct an early debt restructuring that pre-empts default. In addition to economic variables, the type, timing and terms of a debt exchange are largely determined by negotiations between the sovereign debtor and its creditors

b. Understanding Debt Restructuring Better

Once a government is in debt distress, debt restructuring, coupled with a medium-term fiscal and economic reform plan is the feasible way of resolving this problem.

i) *There has to be prompt recognition of the extent of the problem, coordination with and among creditors, and an understanding by all parties that restructuring is the first step toward debt sustainability—not the last.*

ii) *International financial institutions such as the International Monetary Fund and World Bank often play an important role in the debt restructuring process in emerging economies - they conduct the debt sustainability analyses needed to understand the problem fully, and often provide financing to make the deal viable.*

iii) *A swift and deep restructuring agreement allows a more rapid and sustained recovery. (Carmen M. Reinhart and Christoph Trebesch, 2016). The historical track record, however, reveals that resolution of sovereign debt distress is often delayed for years e.g Nigeria and Poland, for example, each underwent seven debt restructuring deals before finally resolving their unsustainable debt.*

c. How Debt Restructuring Negotiations Work

i. Case Study 1: Chad vs Glencore (2015)

Loans contracted by the Chadian government with commodity trader Glencore in 2013 were guaranteed by oil. In 2015, after oil prices crashed the previous year, debts were restructured to extend their maturity over six years, increasing total payments. By the end of 2016, Glencore held 98 per cent of Chad's external commercial debt, and 85 per cent of Chad's oil revenues (the primary source of revenue for the country) was directed towards paying Glencore back. That year, debt service to Glencore was US $231 million out of US $271 million oil sales revenue, leaving only US $40 million to the rest of the budget. As a result, between 2014 and 2016, public spending was cut by 10.8 per cent of non-oil GDP. (World Bank (2018)). Despite major budget cuts, Chad went into arrears on some of its payments to multilateral and bilateral creditors, and looked up for assistance at the IMF. To get a bail-out from the IMF, Chad had to reach a restructuring agreement with Glencore. The whole process ended up with creditors receiving their payments and fiscal austerity continuing. Debt service as a proportion of government revenue spiked from 6.5 per cent in 2015 to 22.5 per cent in 2017. As the World Bank admits, "since the beginning of the crisis, dwindling fiscal resources have disrupted vital public services", delaying or halting, on various occasions, payments to community-based teachers and health workers, funding for student scholarships, social-programme benefits and the provision of agricultural inputs. Poverty reduction gains obtained after debt relief and during the oil boom have been threatened by the economic crisis triggered by the Glencore agreement. In February 2018, a general strike against the austerity programme ended with over 100 people being arrested. (Jones, Tim (2019))

ii. Case Study 2: Mozambique Hidden Debts (2014)

In 2014, the Mozambique state-owned company, Ematum, had borrowed $US850 million from international investors at an 8.5 per cent interest rate to pay for tuna fishing fleet (US $760 million plus US $90 million in fees for the banks that arranged the loan). English branches of Credit Suisse and VTB, which arranged the initial loan, additionally lent US $1.4 billion to state-owned companies in Mozambique. None of the loans, or the government guarantee, were approved by the Mozambique parliament, breaking a constitutional rule. The independent audit that took place after the hidden debts were exposed found out that, of the US $760 million initially lent, all had gone to the fishing boat contractor in Abu Dhabi, never entering Mozambique. The Mozambique government argues that US $500 million from the operation was for military equipment, but no evidence has been presented. Two of the bankers involved have already pleaded guilty and in June 2019 the Mozambique Constitutional Council ruled that at least one of the loans was illegal. However, the Mozambique government reached an agreement on paying the original debt, which according to the Jubilee Debt Campaign and the Mozambique Budget Monitoring Forum (FMO), a network of 21 Mozambican civil society organisations, could see speculators make 270 per cent profit out of Mozambique's debt crisis.(Jones, Tim (2018), Ellmers, Bodo (2017))

d. List of Resources for Additional Reading

To expand your understanding of Debt Restructuring, here are recommended resources for further reading;

- The Sovereign Debt Restructuring Process
- IMF's Lending Framework and Sovereign Debt—Further Considerations (9 April 2015)
- Sovereign Debt Relief and Its Aftermath
- Managing Foreign Debt

- Chad 1st Economic Recovery Resilience DPO
- The unexpected Mozambican debt crisis: illegitimate debt back on the international agenda
- 'Outrageous' Mozambique debt deal could make 270% profit for speculators.
- Sovereign Debt Restructuring

3. Understanding Debt Cancellation

a. Definition

Debt cancellation or debt forgiveness is a specific and highly concessional form of debt relief. With cancellation, the level of the official debt is reduced in net present value terms. With total debt cancellation, all eligible debts are reduced to zero.

b. Debt Cancellation Frameworks

i) In the past, debt relief frameworks were provided in the form of **Heavily Indebted Poor Countries (HIPC)** Initiative in 1995 and the **Multilateral Debt Relief Initiative (MDRI)** in 2005. MDRI provided 100% relief on eligible debt from three multilateral institutions (the IMF, the International Development Association (IDA) of the World Bank, and the African Development Fund (AfDF)) to a group of low-income countries with loans made prior to 2003/2004 and was intended to help these countries advance toward the United Nations' Millennium Development Goals (MDGs) focused on halving poverty by 2015. The HIPC, a joint approach by the IMF and World Bank was designed to reduce the debt of selected low-income countries whose debt was higher than 150 % of exports or more than 250 % of revenues and were eligible to borrow from the World Bank's International Development Agency.

ii) In 2020, World Bank and the International Monetary Fund urged G20 countries to establish the **Debt Service Suspension Initiative (DSSI)** to respond to the impact of COVID-19 on the world's poorest countries. The DSSI helps countries concentrate their resources on fighting the pandemic and safeguarding the lives and livelihoods of millions of the most vulnerable people. Since it took effect on May 1, 2020, the initiative has delivered more than $10.3 billion in relief to more than 40 eligible countries. In all, 73 countries are eligible for a temporary suspension of debt-service payments owed to their official bilateral creditors. The G20 has also called on private creditors to participate in the initiative on comparable terms. The suspension period, originally set to end on December 31, 2020, was extended to December 2021.

iii) The **Special Drawing Rights (SDR)** is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. To date, a total of SDR 660.7 billion (equivalent to about US$943 billion) have been allocated. This includes the largest-ever allocation of about SDR 456 billion approved on August 2, 2021 (effective on August 23, 2021) to address the long-term global need for reserves, and help countries cope with the impact of the COVID-19 pandemic. The value of the SDR is based on a basket of five currencies—the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling. (Visit https://www.imf.org/ for additional information on SDRs)

c. How Debt Cancellation Negotiations Work - Case Study: Nigeria

Nigeria's financial relations with the Paris Club and efforts toward debt treatment took a new dimension with the G-8 summit of June 2005 in London. At a pre-summit meeting, the G-8 Finance Ministers announced their willingness to provide a fair and sustainable solution to Nigeria's debt problem within the Paris club.
To address the issue, the Paris Club made the following offer to Nigeria: Nigeria was to reach agreement with the IMF in September on its economic objectives and policies and thereafter negotiate a memorandum of understanding with the Paris Club to formalize the restructuring; Nigeria was to clear its current arrears of about $6 billion by a cash payment in September; and buy back the remaining debt after reduction under Naples terms of 67 percent by making another cash payment of about $6 billion six months after the first payment. To eliminate the $31 billion debt to the Paris Club, Nigeria would pay about $12 billion and receive a debt write off of $18 billion by the Paris Club.

This agreement was implemented in 2 phases;

a) *Phase I - payment by Nigeria of arrears due on all categories of debts and a grant by the Paris Club of 33% cancellation of eligible debts.*

b) *Phase II - IMF approval of the first review of the funding advice and support in March 2006, followed by the Nigerian government paying amounts due under post-cutoff date debt, and Paris Club creditors granting a further tranche of cancellation of 34% on eligible debts. Finally, Nigeria buy back the remaining eligible debts.*

This agreement gives Nigeria a debt forgiveness of about $18 billion or 60% of its debt to the Paris Club at the payment of an approximate amount of $12.4 billion, representing regularization of arrears of $6.3 billion, plus a balance of $6.1 billion to complete the exit strategy. In October, 2005, Nigeria paid the sum of $7.58 billion to the Paris Club and on the 21st of April 2006, made the final payment of $4.5 billion to the Paris Club. With the above deal and the last payment Nigeria paid off its debts to the Paris Club became the first African country to do so.

4. Understanding Debt Swaps

a. Definition

i) *Debt swaps are a type of debt relief, where instead of paying back the debt to creditor countries, debtor countries use the debt money for their social development, such as education and health care (also called debt conversions).*

ii) *It is a financing technique to mobilize resources for development in debtor countries by converting a portion of external debt owed to the creditor country into funds for new or existing aid programs in the debtor country.*

b. Understanding Debt Swaps Better

i) Debt swaps should free up fiscal resources that can be allocated to development priorities such as education. This expectation is subject to two important qualifications;
by calculating and comparing the net present value (NPV) of the debt and of the counterpart funds. For concessional debt with long repayment rates, the NPV will be significantly lower than the nominal value realistic chances of the cancelled debt being repaid - only the share of debt service that would have been actually paid up to the creditor in the absence of debt relief generates real fiscal space, so that debt relief operations that seem very generous at first sight may in effect only bring about minor budgetary gains

ii) Debt Swaps Frameworks
There are different types of swaps;
Bilateral - in a bilateral debt swap, the creditor cancels debt owed by the debtor government in exchange for the debtor government setting aside an agreed amount of counterpart funds in local currency for an agreed purpose. This model is used mostly in official (government-to-government) debt swaps

Third-party (trilateral/multilateral) - a third party (e.g. a non-governmental organisation, NGO) solicits debt donations or purchases debt from a creditor in a secondary market – at a discount from face value – and negotiates separately with the debtor government the cancellation of the debt in exchange for project support and implementation.
Debt swaps can also be for a specific project or for a counterpart fund that is created to receive and disburse the funds in projects according to agreed-upon guidelines that the creditor and debtor negotiate.

c. How Debt Swaps Negotiations Work - Case Study: Argentina, Senegal & UNICEF

The mechanism of debt swaps is that they allow the debtor government to channel fiscal resources, from debt servicing, into social development programs without defaulting on its commitments. The amount of funding mobilized will depend on a) the nominal value of the debt to be forgiven; b) the percentage of the nominal value of the cancelled debt claim is to be mobilized by the donor as counterpart funds;

and c) the schedule for the debtor to mobilize the counterpart local currency funds.
The Senegal debt swap undertaken in 1993 with a third-party participation of UNICEF shows the importance of macroeconomic risks for the success of debt swap arrangements. With the assistance of the ING Bank, UNICEF purchased USD 24 million face value of bilateral debt owed by Senegal to Argentina for a purchase price of USD 6 million (25% of face value). The Government of Senegal agreed to pay UNICEF the equivalent of USD 11 million over three years to support UNICEF projects in Senegal related to development (education, health, water supply and sanitation projects). The payment had to be made in domestic currency. However, one month after the debt swap agreement was signed, the local currency devalued by 50%, doubling the Government obligation. Subsequently, the Government and UNICEF agreed to re-negotiate the terms of the transaction. The objective was to balance between the budgetary impact of increased payments in local currency and the need to provide sufficient financing of the programmes. (Overview of Debt Conversion, UNICEF, 1993)

d. List of Resources for Additional Reading

To expand your understanding of Debt Swaps, here are recommended resources for further reading;

- Debt Swaps for Sustainable Development: A practical guide for NGOs
- Towards universal social protection for children – Achieving SDG 1.3
- Debt Swaps for Sustainable Development
- The Basic Macroeconomics of Debt Swaps
- Overview of Debt Conversion

5. Understanding Debt Standstills

a. Definition

A debt standstill is a debt relief mechanism that allows official creditors to suspend debt repayments from the very poor countries eligible for support from the World Bank Group's International Development Association. In standstills the original date for principal to be paid falling due outside the standstill period would not be affected. Indeed, in the case of a standstill, the objective is to keep the due payment date for the principal in place, except for any principal falling due during the standstill period

b. Understanding Debt Standstills Better

On 15 April, G20 countries agreed to a "debt service standstill" until the end of 2020, from all official bilateral creditors, providing some direct liquidity support to the poorest countries, in the face of the ongoing COVID-19 pandemic. This follows a joint call by the IMF and the World Bank on 25 March and backing from G7 finance ministers and central bankers in their statement of April 14. The debt standstill provides temporary respite, not relief. The standstill will be neutral in net present value (NPV), implying that the debt service not paid in 2020 will be fully repaid over 2022-2024 (with a grace period in 2021), with in addition interests to compensate for the delay (which could be significant for non-concessional loans). On April 7, 2021, G20 bilateral official creditors agreed to a final extension of the DSSI by 6 months through end-December 2021. (Questions & Answers on Sovereign Debt Issues, IMF, April 8, 2021)

c. How Debt Standstills Negotiations Work

Implementing a standstill would require coordination among diverse private creditors as well as between official and private, bilateral and multilateral institutions, to give borrowing governments adequate relief. Full creditor participation in a standstill that would avoid a payment default could be facilitated through the contractual provisions widely adopted since 2003. Collective action clauses (CACs) allow for a qualified majority (typically 75 percent) of bondholders of a single bond issuance to bind all holders of the same issuance to a change in payment terms. The risk has always been—and would exist with a standstill—that a disruptive creditor would acquire a blocking position in a CAC vote, retain bonds with the original terms, and demand to be paid on the original schedule. To address this risk, nearly half of all sovereign bonds governed by foreign law now have "aggregated" CACs that could allow creditor majorities voting together across multiple bond issues to modify interest and principal

payments, thereby making it much more difficult for holdouts to obtain enough bonds to block an amendment. (PIIE, COVID-19 Series, G20 Agenda, April, 2020)

d. List of Resources for Additional Reading

To expand your knowledge on Debt Standstills, here are recommended resources are for further reading;

- The G20 Debt Suspension Service Initiative (DSSI)
- The G20 Common Frameworks for Debt Treatment beyond the DSSI
- A "debt standstill" for the poorest countries: How much is at stake?
- The Limits of the G20'sDebt Service Suspension Initiative
- Special Report COVID-19 No 12- Repositorio CEPAL

6. Conclusion

While limited in its scope, the G20 agreement on a debt standstill will bring substantial liquidity to recipient countries, and represents constructive collective action in building and protecting global financial safety nets, notably for low-income countries.

The joint call of the World Bank and the IMF was clear: in addition to the urgency of a debt standstill, the G20 should also require a reassessment of debt sustainability, including to "prepare a proposal for comprehensive action by official bilateral creditors to address both the financing and debt relief needs of IDA countries". (Joint Statement of the WBG and the IMF(March 25)
If the global economic downturn proves to be long-lasting, several of those countries could indeed become insolvent. While the immediate need is to provide urgent resources, it would be necessary to consider deeper restructuring of the debt on a case-by-case basis.

A possible concern around debt restructuring is around how the resources made available by the standstill will be used. This was one motivation for the inclusion in the G20 agreement of monitoring by IFIs on the use of the reallocated debt service towards health or economic support, in order to avoid or mitigate a moral hazard. Another concern is more forward looking: the possibility that the debt standstill would somehow encourage less prudent fiscal behaviour in the future. However, in this case, the crisis is clearly exogenous, and not caused by any "imprudent behaviour". The "conditionality" of the standstill is relatively light, but clearly aims to limit opaque practices, by requiring countries to disclose their financial commitments.

The issue of lack of transparency in lending practices is raised in the agreement, and should be strongly enforced to positively influence future resolutions. One of the conditions raised for applicants to the "debt service suspension initiative" is to "disclose all public sector financial commitments (debt)" with technical assistance from the IMF and the World Bank. While countries under the IMF programme are already required to disclose their commitment this could allow for significant progress.

The needs of vulnerable middle-income countries not covered by the existing standstill should be seriously considered. Countries dependent on oil exports or other commodities, as well as tourism, are experiencing a considerable economic shock, and could see a large share of their population slip back into poverty. In addition, the global recession could, depending on how long it lasts, push debt levels beyond what can be sustained. Several affected countries, such as Zambia (whose main exports, copper, experienced a 20% price decline), Ecuador (suffering from one of the worst outbreaks among developing countries), or Argentina (whose debt was already close to unsustainability before the COVID-19 shock) have already entered negotiations with lenders to restructure their debt. The international financial community has an important role in ensuring an orderly process for vulnerable countries.

Finally, the crisis also highlights new modalities for development co-operation. G20 responses in support of developing countries most hit by the COVID crisis should also look at mobilizing all sources of finance, including the private sector, and highlighting principles of development co-operation

(effectiveness, ownership), with modalities such as South-South and triangular co-operation. The DAC agreed to "strive to protect ODA budgets, encourage other financial flows to support governments and communities in partner countries, and invite other development co-operation partners to do the same", and should use those scarce resources to leverage others and maximize their impact. (A "debt standstill" for the poorest countries: How much is at stake?, OECD, May 2020)

Exercise 2: Increasing understanding of Debt Alleviation Mechanisms

Aim
To increase understanding of Debt Alleviation Mechanisms and how they can be applied

Activity
In this exercise users are asked to review the Scenario at the beginning of the Module and respond to a series of questions. The questions are merely guidelines to make the users reflect on the issues at hand and begin to think about how debt can be alleviated and at the same time gauge the user's current knowledge levels

Step 1: Review the Scenario and reflect on the sections on the module. Identify the stakeholders/ participants and their various roles in the debt negotiation process.

Step 2: Review the definitions and explanations of debt alleviation mechanisms in the module and answer the following questions:

- If you were in Famakis situation, what option would you choose? Why?
- Are the Shilokis justified in providing the options?
- Should the Village Council override the Shilokis' suggestions and decide about the loan situation?
- What if one of the Famakis is unable to keep up with the terms of the options they choose?

Step 3: Review the case studies and reflect on your country's experience and situation and answer the following questions (you can also locate your country's debt data from the sources provided in Module 1 Section 5):

- Is your country experiencing debt distress?
- Which debt alleviation mechanism is applicable/available to your country?
- Why do you think so?
- What seems to be the most practical mechanism? Why?
- Has your country applied to any debt alleviation mechanism in the last decade? If yes, how was it negotiated?
- What role can you/your institution play in any future such negotiations were they to happen?

Step 4: Adapting the exercise for a workshop setting

- If in a workshop setting, ask participants to role play the scenario and afterwards break into small groups (5 mins)
- Participants continue to role play the negotiations of the different mechanisms e.g Shilokis who choose Debt Restructuring role play the negotiations with the Shilokis who prefer it. The facilitator should ensure they are mixed up and each gets to play a different role (30 mins)
- In their groups, they answer the questions in Step 3 and write down their answers in post it notes.
- Facilitator writes the Questions on flip chart and asks participants to stick their post it notes under each question (15 mins)
- Plenary discussion where participants compare their responses to Step 2 questions with Step 3 questions to draw parallels between Famakis/Shilokis situation and their experience.

Special emphasis should be put on what should be done to correct the situation and the participants' role. These will be referenced later in the Planning Advocacy module.

Module

3

Does Debt Alleviation affect Education Financing?

Summary

Having familiarized with how debt alleviation mechanisms generally work in the previous module, this module is focused on how some of these mechanisms have been or can be applied to free up resources to increase national education budgets. It also focuses on whether there is any relationship between these mechanisms and improved education outcomes.

By the end of this module, you will have:

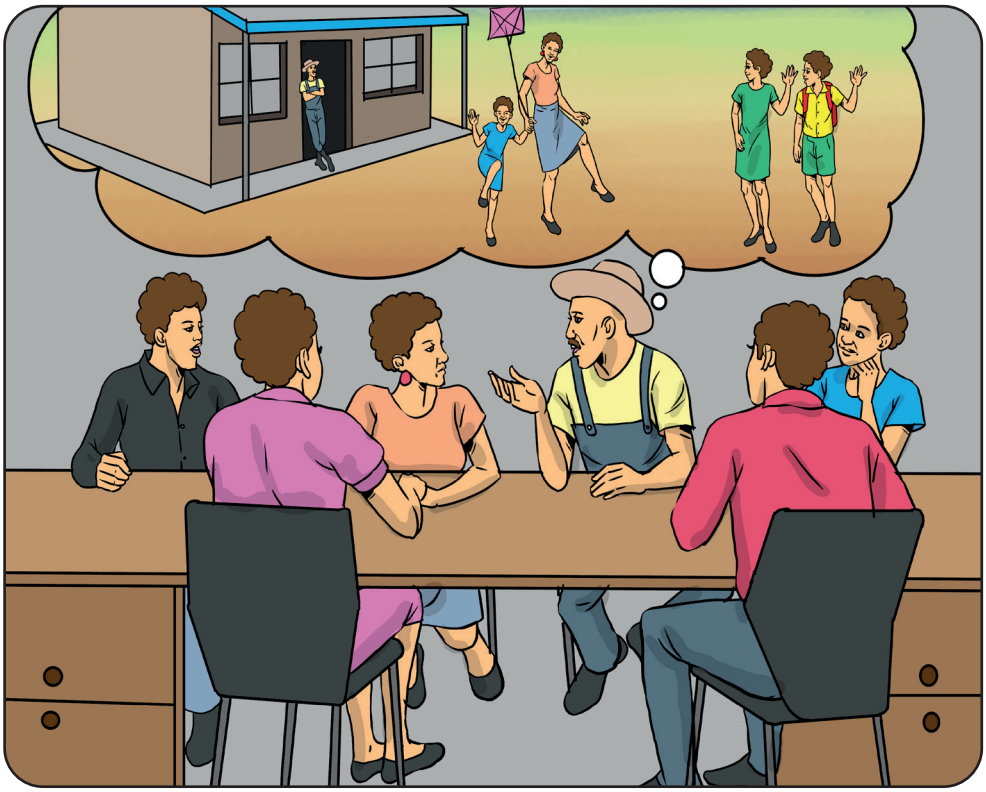
- Understood the relationship between debt alleviation and education financing
- Recognized the most effective and practical mechanism for increasing education budgets
- Understood how debt mechanisms are negotiated for financing education

1. Introduction: Education 2030 Agenda; SDG 4; State of Education

Context- Education 2030 Agenda; SDG 4; State of Education
Sustainable Development Goal (SDG) 4 of the 2030 Agenda for Sustainable Development aims to increase access to learning opportunities for all throughout their lifetimes and places great pressure on the public funding of education. The annual financial gap between available domestic resources and the funding necessary to meet SDG 4 in low and lower-middle income countries is even more serious than it was during the 2000–2015 Education for All (EFA) agenda (UNESCO, 2016). As of 2015, there were 48 countries in the category of least developed countries that are considered highly vulnerable to economic and environmental shocks and have low levels of human assets. Many poor countries find it very difficult to seek public funding for education due to macroeconomic instability, high debt ratios, poor tax administration, and large informal sectors. External debt of developing countries is a serious obstacle for investment in education.

Famaki's Option

Scenario Box 3



Famaki could not bear to see his daughter Efa out of school because he could not pay her school fees anymore. He went to see Shiloki who agreed that Famaki should look for a well-wisher to buy his debt from him. Famaki thought long and hard about who this well-wisher could be. He finally went to see the Village Council who listened sympathetically to his plea. They talked to Eduzoni, a local organization supporting education of young people in the village who agreed to meet Shiloki. The following day, Famaki, the Village Council and Eduzoni went to meet Shiloki. Eduzoni paid off Famaki's remaining amount of debt owed. From then on, Famaki was free of his debt to Shiloki and he got his farm back and was able to live off his land once again. Famaki was required to pay Eduzoni back with interest over a longer period of time to support their youth education programs in the village.

2. Debt for Education Swaps

a. Context

Whereas debt-for-development swaps in general were popular from the end of the 1980s to the 2000s, debt-for-education swaps were particularly popular in the mid-2000s arguably because education was a top priority on the international development agenda after the World Education Forum in Dakar in 2000. Since the beginning of the 2010s, however, there have been sporadic cases of debt-for-development swaps such as the one between Italy and Albania (2012–2016) and the one between Russia and Mozambique (2017–2021). Few debts have recently swapped for education purposes. There were several examples of similar debt-for-education swaps that were considered successful, in particular during the mid-2000s enacted between El Salvador and Spain in 2005, France and Cameroon in 2006, and Germany and Indonesia in 2006 to further explore how these exchanges might be used for funding education initiatives. Germany has conducted three debt-for-education swaps with Indonesia and one with Pakistan and a German swap with Jordan was also partially directed towards the education sector. France has been another Paris Club member interested in these exchanges, earmarking part of its Contracts for Debt Relief and Development (C2D) to education sector support in Cameroon, Mauritania, Tanzania and Nicaragua.

b. Understanding Debt for Education Swaps

Potential benefits of debt for education swaps for the Debtor country include;
a) Increased funding for education programs
b) Debt reduction
c) Positive impact on balance of payments
d) Greater civil society participation

Potential benefits of debt for education swaps for the Creditors
a) Support for social development
b) Official Development Assistance increase
c) Some debt recovery
d) Greater civil society participation

c. How Debt Swaps for Education Work:

Case Study 1 - El Salvador & Spain – The Rural School Construction Program (2005)

In December 2005, Spain and El Salvador agreed to convert debt owed by El Salvador to Spain into funds for education. The swap involved a number of education-related programs to address the issue of regional disparities in achieving EFA. To support this action;

- Spain contributed 10 million USD over four years in the form of debt swaps to the construction of rural schools and the purchase of educational textbooks. Under this agreement, instead of making repayments to Spain, the Ministry of Finance of El Salvador deposited funds into a special account at the El Salvador's Central Bank. Spain then canceled 10 million USD worth of debt owed to them by El Salvador.
- The deposited funds were managed through two coordinated committees with representatives of Spain and El Salvador. The first committee implemented the overall debt swap and formulated the execution strategy. The second committee, the Technical Committee, disbursed funds and implemented the projects associated with the funds.

The Rural School Construction program supported by debt swaps was largely considered positive - from Spain's point of view, debt swaps were able to support projects without conventional ODA funding and for El Salvador's instead of debt servicing, funds were returned to the country and funded its own education projects. Nonetheless, the impact of the debt swaps was also questioned. One notable problem was the small scale of the program: 10 million USD is not enough to tackle education issues in the country. For example, improved roads and additional school buses are necessary for children to travel to and from school safely. El Salvador has over 600 million USD bilateral debt that could be used for debt swaps, but donor nations are unwilling to pursue large debt swaps with lower-middle income countries like El Salvador. (Final Report for UNESCO Advisory Panel of Experts on Debt Swaps and Innovative Approaches to Education Financing, UNESCO, 2011)

Case Study 2 - Cameroon & France – Contract Teacher Program (2006)

In 2000, France agreed to work with other Paris Club members to reduce debt by cancelling loan repayments through debt swaps. It happened as follows;

- As a means to ensure additional debt relief to be converted into investments in education, France decided to create the Contrat de Désendettement et Développement (C2D: Contracts for Debt Relief and Development). In 2006, France signed an agreement with Cameroon for 1.17 billion Euros of debt to be diverted to education programs in Cameroon.
- In the same year, Cameroon designed its education strategy focusing on universal primary enrollment, gender equity, and 100% completion rates to be reached by 2015. To achieve these goals, the government prioritized the recruitment of 37,200 contract teachers to be funded with 392 million USD over five years. While the government expected to support nearly 75% of the total cost of the program, a financing gap existed of 103 million USD. To fill some of this gap, the C2D program provided 55.3 million USD.
- Strong government and donor support have led to the general success of the program. The Ministry of Basic Education was able to hire the target number of contract teachers in each of the five years. The Pupil :Teacher ratio has fallen from over 60 to the low 50s on average. Regional disparities have improved greatly with the majority of recruited contract teacher sent to rural areas with the most need. In 2009, Net Primary Enrollment Ratio was up to 92%, and the Primary Completion Rate was up to 73%—21 percentage points higher than in 2006.

Sustainability of the program, however, remains an open question. The government has created an annual liability for salaries that will be difficult to cut. While the Ministry of Basic Education will not continue to recruit contract teachers in such large numbers, it assured donors it will continue to pay existing teachers and recruit a modest amount of new contract teachers each year, giving hope for the sustainability of the program. (Final Report for UNESCO Advisory Panel of Experts on Debt Swaps and Innovative Approaches to Education Financing, UNESCO, 2011)

Case Study 3 - Indonesia & Germany – Teacher Training & Construction of Schools Program

In 2000, Germany and Indonesia agreed to make a debt-for-education swap arrangement for the first time.

- Under this agreement, Germany would cancel a bilateral debt of 25.6 million Euros and Indonesia would spend the local currency equivalent of half of this amount over three years on teacher training between 2003 and 2005.
- A second debt-for-education swap was agreed in October 2002. The swap included 23 million Euros of bilateral debt. The conversion rate was 50%, and the Indonesian government promised to invest in the construction of 100 new junior secondary schools in the remote Eastern provinces between 2005 and 2007.
- To rebuild Indonesian schools damaged by the earthquake in Yogyakarta and Central Java in 2006, a third swap of 20 million Euros was transacted.

Although this case between Germany and Indonesia is generally considered successful, their budgetary gains are more modest than expected. "Budgetary gains (additional amount in the national budget for social development activities such as education and health care) from debt relief only gradually materialize over time (many years or even decades), whereas counterpart payments, on the other hand,

may be due much earlier, typically within the first few years". Given the German-Indonesian debt-for-education swaps with a long-term original repayment schedule, the impact of this debt swap was small. (UNESCO, 2011)

Case Study 4 - Russia & Mozambique (2017-2021), Italy & Albania (2014-2018)

World Food Program (WFP) mediated a debt swap deal between Russia and Mozambique. Russia agreed to waive Mozambique's public debt, releasing 40 million USD that the Mozambican government has committed to the WFP to implement a school meal program for 150,000 children between 2017 and 2021. Italy also has been engaged in the Debt for Development Swap Program with Albania. Between 2012 and 2016, Italy helped promote social development initiatives of Albania including education-related activities, with a total financial contribution of 20 million Euros. Italy has continued to help this program, as of 2018 (Italian-Albanian Debt for Development SWAP Agreement, 2016). These recent, few, practices of debt-for-development swaps may suggest their revival in the near future.

3. Debt Cancellation and Education Financing

a. Context

Where debts have been reduced or cancelled, it has generally been great news for the education sector. Repeated studies have shown that social spending increases after debt cancellation, particularly spending on education: not least because of citizens' pressure for the proceeds of debt relief to be invested in this way (JDC, Debt & Education Briefing, 2007 pg 3). Cancelling debts gives governments predictable financial resources for many years, meaning that they can confidently direct funds towards recurrent costs like teachers' salaries. Despite limits imposed by creditor conditions, many gains have been possible. Ghana used debt relief money to abolish primary school fees: enrolment increased by 16% in one year, Niger improved school infrastructure, whilst Tanzania built more than 2,000 new schools and 30,000 new classrooms, Malawi used debt relief to train nearly 4,000 new teachers each year whereas Benin used it to recruit teachers for vacant posts in rural areas, and Mali to pay 5,000 community teachers (please add when and the source for each example). Of course, the problems are far from over and are even greater in the countries that are still struggling with debt burdens.

b. How Debt Cancellation Works:

Case Study 1 –Mozambique, 2001

When HIPC was introduced in 1996, Mozambique was one of the first countries to qualify for the programme. The debt situation was not sustainable according to the HIPC debt-to-export threshold, and the debt stock was still growing. During the cold war (1978-1982), bilateral loans amounting to approximately US$ 2 billion (based on market rates during this period) were given to Mozambique, (mainly) by the Eastern bloc and oil-exporting countries. The total assistance from HIPC and MDRI amounted to US$6.2 billion in total (in nominal terms). An amount of US$ 4.3 billion was cancelled within the HIPC initiative and US$ 1.9 billion with the MDRI initiative. The largest part of Mozambique's bilateral debt was owed to Paris Club creditors, particularly to Russia, France and Italy. The debt relief significantly reduced Mozambique's debt burden. Those debts cancelled in 2001 under the HIPC Initiative mostly had not been served before completion point anyway. Thus, it can be concluded that debt relief within HIPC mostly functioned to clean creditor's books from unrecoverable loans.

After the debt cancellation there was economic growth. Foreign investors were attracted and resources for economic investments were freed up. Debt relief made funds available for higher poverty spending. Mozambique's authorities consistently spent around 14-19% of GDP on poverty reduction. As well as the growth of national income poverty reducing expenditures have steadily increased since HPIC Completion Point, and especially after debt relief within MDRI. Mozambique impressively doubled GNI per capita in only 10 years and absolute poverty has fallen rapidly as per below table. Remarkable successes have been booked in the areas of education and health. Primary school enrolment has increased sharply and infant mortality rates have been significantly reduced in the last ten years (can you please add more details on the impact of debt cancelation on education). However, more than half of the population still has to survive on less than US$2 per day. (Defuse the Debt Crisis, 2011, pg 6-9)

c.Infographics/illustrations of the data in the table below to visualize the impact of debt cancellation on provision of social services including education in Mozambique

	1999	2009
GNI per capita	US$ 230	US$ 440
Poverty (% of population below national poverty line (US$2 per day)	69%	55%
Life expectancy at birth in years	45 years	48 years
Infant mortality (per 1,000 live births)	134	96
Literacy (% of population)	57%	54%
Gross primary school enrolment in % of school-age population	71%	114%
Human Development Index	169	165

Source: Human Development Indicators/ Economic Indicators 1999 and 2009

4. Debt Restructuring and Education Financing

Case Study 1 – Ecuador, 2006-2014

Ecuador offers an excellent recent example of how restructuring sovereign debt can be used to create fiscal space for social development expenditures. Ecuador defaulted on its "illegitimate" debt and freed up public resources for expanding health care, education and social protection programmes. So, how did they do it?

In 2008, Ecuador held an official audit to assess the legitimacy of its sovereign foreign debt. The government commissioned two-year investigation concluded that some of its foreign debts violated multiple principles of international and domestic law and were therefore deemed "illegitimate". These were mostly private sector debts that had been nationalized by former Governments.

While Ecuador respected all the debt that had contributed to the country's development or the "legitimate" debt, it defaulted on two government bonds deemed "illegitimate", by suspending payments, during the depth of the global financial crisis in December 2008.

Ecuador then bought them back at the going price of 35 cents on the dollar and retired them. This resulted in a significant reduction in interest payments as a percentage of GDP. The savings on principal and interest payments will amount to more than $7 billion over the period 2008-30.

Public resources freed up in Ecuador through the debt write-down were invested in socio-economic development. Total social spending more than doubled from 4.8 per cent of GDP in 2006 to 10.3 per cent in 2011 (figure 3 – please check – I do not remember you mentioned figures 1 and 2 above). Government spending on education doubled from 2.6 to 5.2 per cent of GDP during the same period. (ILO Social Protection, 2016)

5. Conclusion

Whether and how debt alleviation mechanisms provide more funding for public education systems still remains an empirical question. It is often assumed that debt relief brings more opportunities for education funding, but several case studies suggest that the relationship may not be linear. It depends on several aspects including the type of alleviation mechanism implemented, the period the mechanism is implemented, and whether conditions to invest the resources on education are agreed by the parties involved in debt negotiation/renegotiation.

Focusing on Debt swaps for education which seem to be the most straight forward of these mechanisms to deliver increases in education budgets, depending on the contractual repayment and schedule of the underlying debt, budgetary gains from debt swaps are realized only slowly, typically over many years or even decades (*Cassimon et al., 2009*).

Second, if indebted countries are financially strained, which is often the case, perhaps indebted countries are unable to pay back the debt in the first place. Therefore, the use of the debt for social development might be an unrealistic and impractical proposition.

Third, debtor countries' fungibility is also a concern (debtor countries put the money generated by debt swaps on the government budget). If a debtor country originally allocate 100 million USD for education, and if additional 100 million was generated by debt swaps, instead of adding the 100 million USD to make the budget 200 million USD, the debtor government might use the additional 100 million USD for education as the original budget.

Fourth, even if debts are converted into funds, debtor governments will not necessarily use these resources for social development, including education. Consequently, donors tend to control to a certain degree how the funds from debt swaps are spent (*Cassimon et al., 2008*). Lastly, the amount of debt swap is too insignificant to create any indirect (positive) economic effect. One cannot expect the debt scenario to benefit from this piecemeal transaction (*Cassimon et al., 2011*).

In conclusion, debt-for-development swaps, including education, function only with a number of conditions such that the swap size should be large enough to make impact on macro-economy of the debtor country, and creditor countries should monitor how the funding is spent while respecting the autonomy and ownership of debtor countries in development projects.

e. List of Resources for Additional Reading

To expand your understanding of Debt Alleviation Mechanisms and Education Financing, here are recommended resources for further reading;

- IMF (2009b) Poverty Reduction Strategy Papers, Factsheet August 2009
- UNESCO, Education 2030: Incheon Declaration and Framework for Action for the implementation of Sustainable Development Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning, UNESCO Doc. ED-2016/WS/28, 2016

Exercise 3: Relationship between Debt Alleviation and Education Financing

Aim
To determine the relationship between Debt Alleviation & Education Financing

Activity
In this exercise users are asked to review the Scenario at the beginning of the Module and respond to a series of questions. The questions are merely guidelines to make the users reflect on the issues at hand and begin to think about how debt alleviation can increase education budgets and at the same time gauge the user's current knowledge levels

Step 1: Review the Scenario and reflect on the sections on the module. Identify the stakeholders/ participants and their various roles in the debt negotiation process

Step 2: Review the explanations of the relationships with education financing in the module and answer the following questions:

- What debt alleviation mechanism option did Famaki opt for?
- What is the role of the Village Council and Eduzoni play in resolving Famaki's debt problems?
- How different is Famaki's debt situation if you compare between Shiloki and Eduzoni?
- Do you think Famaki will be in a position to pay off his debt to Eduzoni?
- In this scenario, who is the biggest winner and why?

Step 3: Review the case studies and for each debt alleviation mechanism, draw a simple diagram illustrating the process – in other words develop a workflow diagram. Answer the following questions:

- Rank the mechanisms according to how easy, practical and effective they are in increasing education budgets
- Review applicable debt alleviation mechanisms in your country. What are they? How have they impacted education budgets in your country?
- What are the essential conditions to be put in place in order for education budgets to be increased as a result of debt alleviation?
- What role can you play in ensuring one, some or all of these conditions are put in place?

Step 4: Adapting the exercise for a workshop setting:

- If in a workshop setting, ask participants to role play the scenario. Afterwards break into small groups. (15 mins)
- In their groups, they answer the questions in Step 3 and write down their answers in post it notes.
- Facilitator writes the Questions on flip chart and asks participants to stick their post it notes under each question (15 mins)
- Plenary discussion where participants compare their responses to Step 2 questions with Step 3 questions to draw parallels between Famaki's situation and their experience/knowledge.

Special emphasis should be put on what should be done to correct the situation and the participants' role. These will be referenced later in the Planning Advocacy module.

Module

4

Education Financing:
What new ideas can we try?

Summary

This module discusses a new instrument that has not been widely applied but which has been demonstrated as having the potential to revolutionize education financing. Other innovative education financing strategies have been expounded on in GCE's Financing Matters: A Toolkit on Domestic Financing for Education.

By the end of this module, you will have;

- Understood what Debt Conversion Development Bonds (DCBDs) for Education are
- Understood how DCDBs work
- Recognized the potential of DCDBs to deliver education financing

1. Debt Conversion Development Bonds (DCDBs) for education

a. Definition

Domestic bonds issued on the basis of savings achieved through debt conversions are called Debt Conversion Development Bonds (DCDBs). These bonds could be structured in the following way - one or more creditors agree to forgive specific debts in exchange for a commitment from the debtor country's government to periodically place into a special account at their central bank or treasury the local currency saved from not having to make principal and interest payment on the debt. The account is called the Debt Conversion Account (DCA).

b. Understanding DCDBs Better

Developing countries could fill part of the debt gap if they mobilized their own domestic institutionalized savings into investments for development. Today in developing countries more than $6 trillion in assets are controlled by institutional investors in the form of pension funds, insurance companies, mutual funds, etc. These assets are increasing by over 15% per year. However, few developing countries have solved the problem of how to prudently deploy these accumulated savings into healthy development spending. Much of these domestic institutionalized savings must be held for long periods of time and their future disbursement is quite predictable. Thus these assets could be an important source of long term financing for the country's social and economic infrastructure. Donor countries could assist governments in developing countries in their efforts to mobilize these funds through the use of Debt Conversion Development Bonds (DCDBs). Long-term financing for infrastructure projects in education and other social sectors could be obtained from domestic institutional investors, while at the same time providing the investors with much needed safe long-term assets.

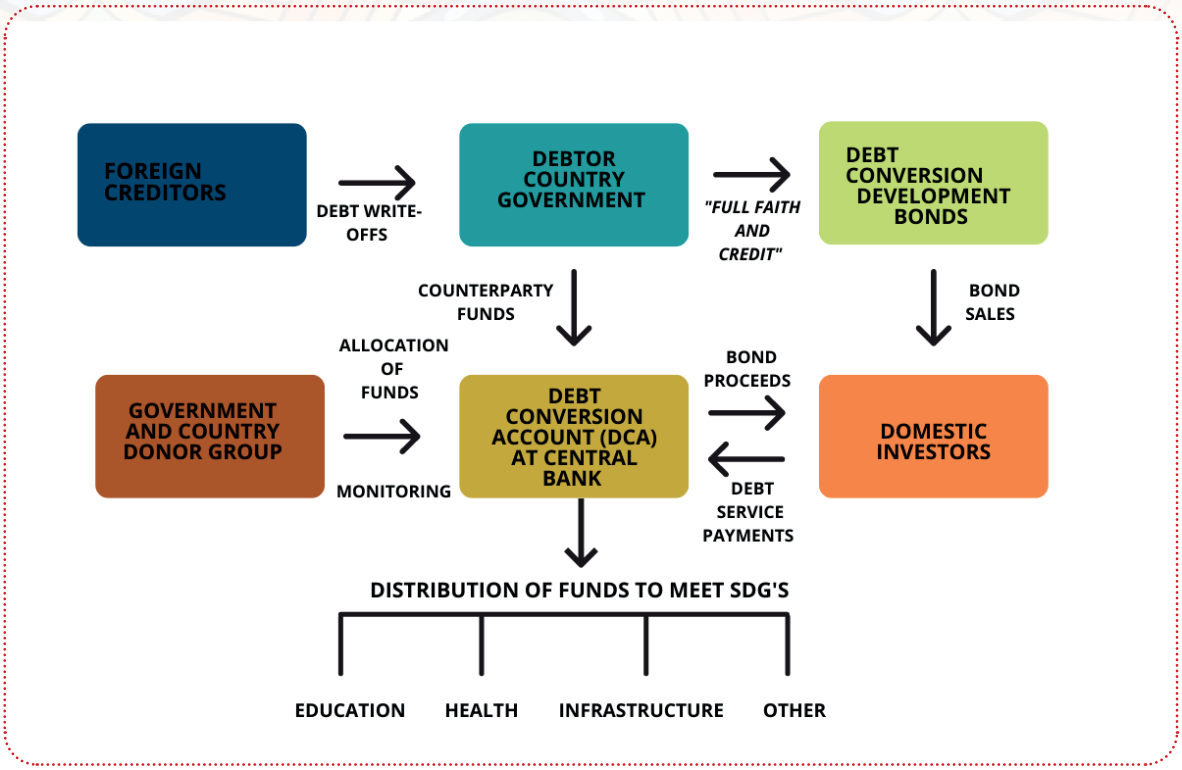
In brief, DCDBs are domestic bonds issued by a developing country government, the future debt service payments of which are matched by the fiscal space created by creditors forgoing future debt service payments. DCDBs are a variation on traditional debt conversions (often referred to as debt swaps) that may be of use when donors wish to spread the costs of financial assistance over time utilizing the capacity of the beneficiary government to bring forward the benefits of this assistance via the issuance of domestic bonds

c. How DCDBs work

The basic building blocks of a Debt Conversion Development Bond program are the following:

- One or more creditors agree to write off specific debts (or debt service payments for a number of future years) in exchange for a commitment from the beneficiary country's government to use the fiscal space generated by this action to support the issuance of government bonds and to use the revenue obtained from the bonds to fund specific social and economic development projects.
- Creditors who provide debt for conversions have the opportunity to negotiate with the beneficiary governments about the allocation of the funds raised by issuing DCDBs. They can negotiate means for monitoring results if they so desire. And they can provide technical assistance and other forms of financing to help ensure concrete development results from the projects that are funded.
- The beneficiary government would then issue one or more domestic bonds. The time profile of the future stream of debt service payments on these bonds should be aligned with the time profile of the fiscal space created by the debt conversions.
- The proceeds from the bonds would then be used by the beneficiary government to fund the social and economic development projects agreed upon with the donors.
- The government would repay the bonds from the savings realized over time by not having to make payments on the converted debt.
- A key attraction of DCDBs for donor governments is that they allow the donor to mobilize substantial development funding today while spreading the cost over a number of years.
- A key attraction of DCDBs for the beneficiary country is that they allow the government to obtain substantial funding today by issuing bonds that will be repaid with no added fiscal burden in the future. DCDBs can also help develop the domestic bond market in the beneficiary country. In the longer term this can be their most significant and sustainable impact.

d. Infographs/Illustrations to depict how DCDBs work



e. List of Resources for Additional Reading

To expand your knowledge on DCDBs, here is a list of suggested resources for further reading;

- Debt swaps and debt conversion development bonds for education: final report for UNESCO Advisory Panel of Experts on Debt Swaps and Innovative Approaches to Education Financing Debt Conversion
- Development Bonds: Mobilizing Domestic Savings to Fund Development

2. Conclusion

Potential use of resources from DCDBs should be decided by countries themselves with advice from the local donor group and according to actual needs on the ground. There must be considerable reflection and planning on how money would be spent from bond proceeds. It would be an advantage to have an existing education program in a given country before the debt conversion is executed. The financing from DCBDs could focus on issues related to equity and quality in education which pose challenges in most of the countries. Resources generated through DCBDs could benefit the following potential neglected areas in education: education for refugee children, quality of teachers, innovation in education, education in rural areas, etc. Debt conversions and debt forgiveness have been used successfully over the past three decades to provide significant fiscal space for developing countries and thus allow them to spend more on development. They are a regular feature in the official development assistance (ODA) of several donor countries. DCDBs take traditional debt conversions one step further by linking them to the issuance of domestic bonds by recipient governments. (Bond, 2013)

Debt swaps/conversions have been happening for decades, but there are no DCDBs currently in practice in any sector. In 2012, UNESCO commissioned Affinity Microfinance to explore a pilot. Affinity Microfinance selected and visited Bangladesh and Jordan, which both met the criteria and were very interested as recipients. However, Japan as the creditor country decided it was not the right time to take this approach further and the pilot has stalled.

Much more research needs to be done on where the right conditions exist and what the true potential value is, but it is likely that the greatest opportunity for DCDBs is for MICs, such as India, Ghana, Pakistan, the Philippines, Indonesia and Egypt, and non-Heavily Indebted Poor Country (HIPC) LICs, for example Kenya and Bangladesh, as most of these countries have not had large debt write-offs over the past decade, and therefore may have sufficient debt to swap (Bond, 2012).

Module

5

Influencing Policy & Advocacy
on Debt Mechanism and Education Financing

Summary

This module discusses the policy and advocacy strategies that education activists can adopt to influence action on alleviating debt and increasing national or global education budgets. These actions will be suggested for different levels- at national and at international level. Some potential areas of collaboration at a global stage will also form part of this discourse, including roles that can be played by individuals and individual organizations to hold governments to account and demand for more human centric approaches at achieving debt sustainability, human development goals, equity and education for all.

By the end of this module, you will have;

- Identified practical approaches at influencing policy and advocacy on debt mechanisms and education financing.
- Understood how education and financing policies are formulated at national and global level.
- Recognized the role to play in influencing policy and advocacy on debt mechanisms and education financing.

1. Introduction: Politics of Debt alleviation campaign

a. Political Context

Considering the technical impossibility of suggesting a single debt mechanism that works for all countries, it seems that campaigning for debt alleviation – without choosing a particular mechanism - is a secure political stance for GCE. A general call for debt alleviation not only prevents GCE from making recommendations without having thought through the possible financial impacts for education in the long-term, but also acknowledges the diverse contexts in which GCE members work and campaigns for education. Depending on the member's knowledge of the context in terms of the debt crisis and the financing for the education gap, some GCE members may adopt a specific debt mechanism. Some members may potentially campaign for debt cancellation, as it is likely the case in LICs, but other members may campaign for debt swaps for education. Besides, some members may consider to campaign for an international agreement of a debt burden of no more than 12% as suggested by ActionAid.

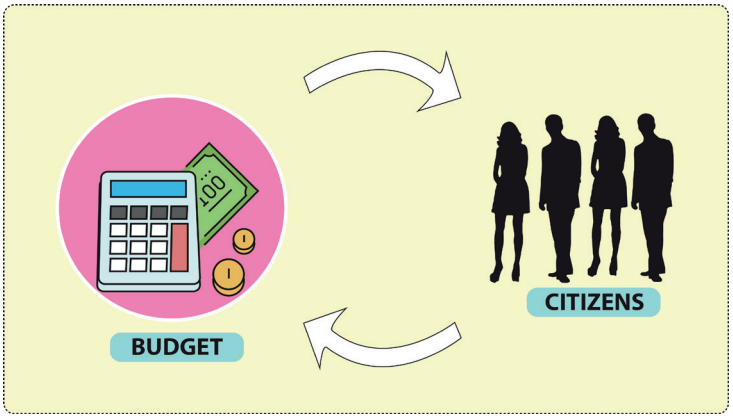
b. Understanding Campaigns Better

Education advocates should not work alone. There are many civil society organization (CSO) networks and social movements which could potentially be on the same side and who already share their same goal of debt alleviation, increased tax base and generating larger national education and other social expenditure budgets. Some likely allies are the existing national networks of health advocates, women's rights organizations, organized labour unions and especially public sector labour unions, pension fund watchers and those fighting against privatization of pension funds, advocates for social security, and human rights advocates, many of which are increasingly working on economic and social rights. Even some domestic business associations might be interested in supporting efforts to change policies, such as the high interest rates on their commercial credit and premature trade liberalization, etc. While most of these groups will want to see larger public budgets for social expenditure, education advocates may have to first do sector specific work on helping to "make the connections" to show how specific IMF loan conditions and neoliberal policies negatively impact the goals of other advocates to get increased social spending. Listed below are 7 crucially important types of national/international civic activism that have been expanding in recent years and each of which should be actively supported by education advocates in their fight against external debt loan programs and neoliberal polices in their countries. Where these do not already exist, education advocates should create them.

2. Policy Activism

a. Budget Tracking Initiatives

One of the many examples of such groups is the International Budget Partnership (IBP). It supports and collaborates with CSOs in developing countries to analyze, monitor, and influence government budget processes, institutions, and outcomes in order to make budget systems more responsive to the needs of poor and low income people in society and, accordingly, to make these systems more transparent and accountable to the public. Only ten years ago, civil society was effectively shut out of the budget process around the world. Today, the IBP is active with its partners in promoting budget accountability and civil society engagement in over 85 countries. There are also many other groups who do this kind of work.



b. Participatory Budgeting Initiatives

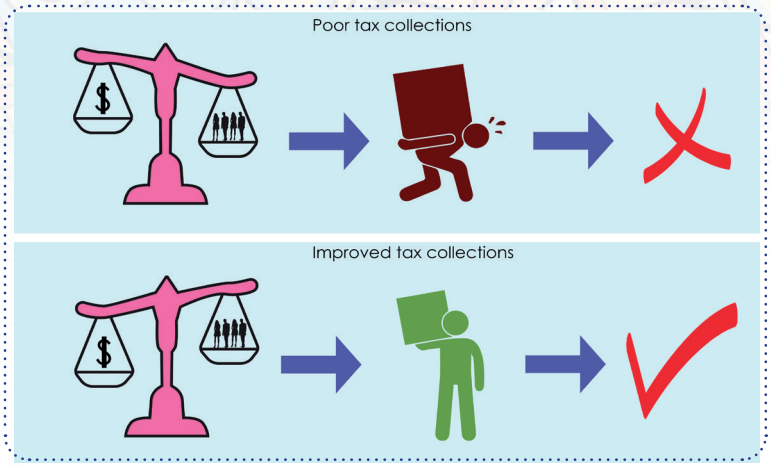
Since its emergence in Porto Alegre, Brazil, the civic approach to participatory budgeting has spread to hundreds of Latin American cities, and dozens of cities in Europe, Asia, Africa and North America. More than 200 municipalities are estimated to have initiated participatory budgeting. In some cities, participatory budgeting has been applied for school, university and public housing budgets. These international approaches differ significantly, and are shaped as much by their local contexts as by the Porto Alegre model. Participatory budgeting is a natural extension of the 21st article of the Universal Declaration of Human Rights; that "everyone has the right to take part in the government of their country". Article 25 of the International Covenant on Civil and Political rights moreover states that citizens shall "have access, on general terms of equality, to public service in their country.

c. Freedom of Information Legislation & Campaigns

- Education advocates need to launch campaigns to ensure enforcement of citizens' right of access to government information and can log onto www.freedominfo.org which is a one stop portal that describes best practices, consolidates lessons learned, explains campaign strategies and tactics, and links the efforts of freedom of information advocates around the world.
- It contains crucial information on freedom of information laws and how they were drafted and implemented, including how various provisions have worked in practice.
- It also hosts IFI Watch, for information specifically about the IMF and other international financial institutions (as does the www.brettonwoodsproject.org).
- Another important website for advocates working on the IMF is the Global Transparency Initiative at www.ifitransparency.org. Your group can sign on to their excellent GTI Transparency Charter for International Financial Institutions – based on international best practices of transparency for public institutions, it demands that the IMF and other IFIs improve their information disclosure policies and bring them up to best practices standards.

d. Tax Justice Network

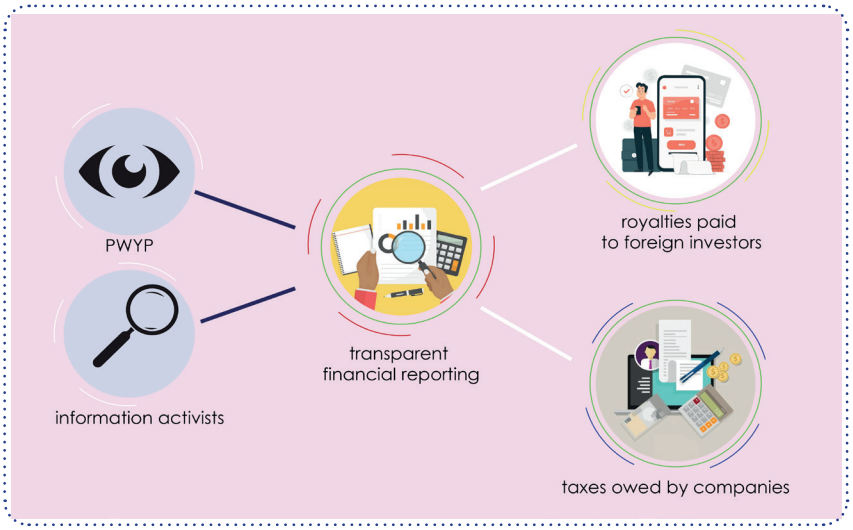
These national and international coalitions of groups, activists, tax accountants and other experts have sought to take on issues such as tax evasion, illicit capital flight and the stopping the role of off shore tax havens in an effort to help national authorities increase and improve tax collections. Many countries already have national Tax Justice Network chapters. Some examples here could be helpful. Tax revenue is potentially the biggest source of long term financing for sustainable development and is the lifeblood of all state services which include the provision of public services such as education, health care and infrastructure. The various types of Tax Justice Networks in countries work with CSOs to popularize tax



revenue as a viable and sustainable source of development finance; enhance the capacity of key stakeholders i.e. CSOs, policy makers, government practitioners, tax authorities to understand/appreciate the linkages between tax and sustainable development (appreciate tax as a development issue); enhance the capacity of stakeholders to effectively participate /influence national, bilateral and multilateral tax policies and agreements / negotiations; and provide a platform for stakeholders to debate and influence tax policies.

e. Publish What You Pay (PWYP)

Various PWYP coalitions in many countries and international coalitions of groups work closely with freedom of information activists to better regulate the proper and transparent financial reporting of royalties paid to foreign investors in developing countries involved in the extractive industries, and the taxes owed by companies on the profits they are repatriating out of countries. Many countries already have national PYWP national chapters. Increasingly an internationally connected movement, many countries are working with the UN and currently pursuing new tax treaties and putting pressure on offshore tax havens to increase transparency and accountability. Such efforts can be important in enabling citizens to increase their national tax base. In Burkina Faso, PWYP national coalition successfully advocated for the allocation of mining revenue to local communities. This campaign found a positive echo among members of the Political Transition Parliament in October 2014 and led to the creation, under the new mining code adopted in 2015, of the Mining Fund for Local Development (FMDL) (Kabore, 2020)



f. National Citizens Debt Audits

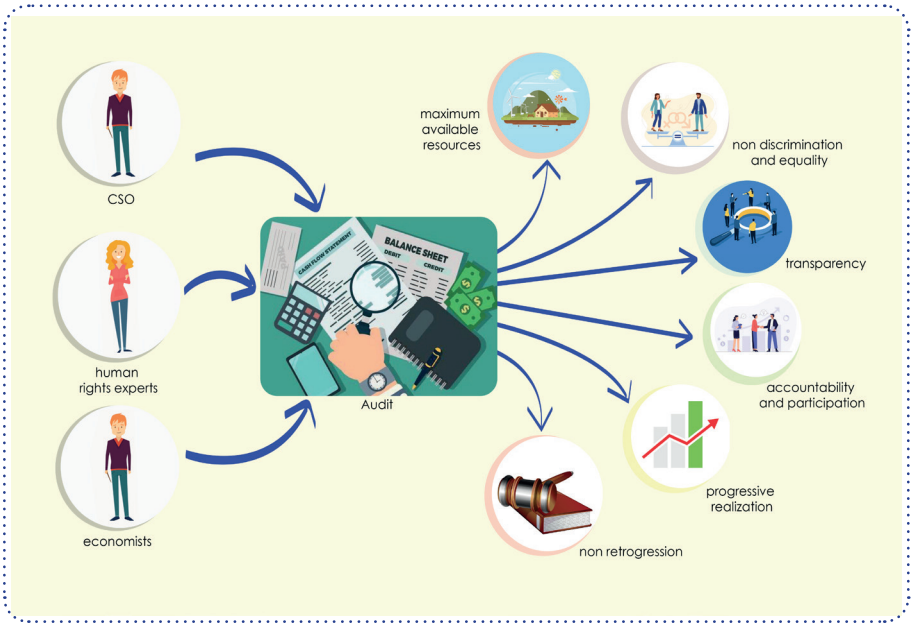
These new type of national debt audits are a more recent type of civic exercises that are an excellent way to get citizens involved, hold public officials accountable for the domestic and external debts that have been built up by previous government borrowing. Ecuador's national debt audit was one of the most far reaching to date, enabling its citizens to identify which of Ecuador's external debts were legitimate and determining which were considered odious and thus not to be repaid. Debt audits can be a powerful tool to support civil society around the world access information on the debts of their countries in order to judge for themselves whether the debts should be paid, and the implications of any payment or non

payment decisions. This is an approach which is gaining international currency at governmental and citizenry levels. For example a governmental supported debt audit has been implemented in Ecuador, and parliamentary audit initiatives are being planned in Bolivia, Brazil and in the Philippines resulting from citizen pressure for debt justice

g. Economic Policy Audits

In using such national "audits" CSO advocates can work together with human rights experts and economists who are critical of the IMF policies to audit key economic policies as proposed in their IMF loan programs in light of human rights obligations. With such an audit, CSO advocates can select their current fiscal, monetary, taxation and trade policies and test them against core principles such as maximum available resources; non discrimination and equality; transparency, accountability and participation; and progressive realization and non retrogression.

Education advocates should work with others to initiate their own public forums and open participatory dialogues to conduct "economic policy audits" in order to broaden public debates about IMF policies and raise awareness about alternatives, and do so by using a rights based approach to integrating macroeconomic policies with human rights.(Balakrishnan and Elson 2008). Within their individual countries, education advocates can identify which international human rights agreements their country has already committed to and which national constitutional rights might be violated, compromised or contradicted by policies in IMF loan programs that unduly limit education budgets.



Education advocates and others who have been advocating for the SDGs should remember that the IMF is officially a part of the United Nations system as a "specialized agency" and that the international human rights framework, including workers' and women's rights, rights to education, food, health and housing, is a fundamental pillar of the UN system as set out in the Universal Declaration of Human Rights. (Rowden, 2011, pg 59)

Case Study 1 Economic Policy Audit – Latvia (Dec 2009)

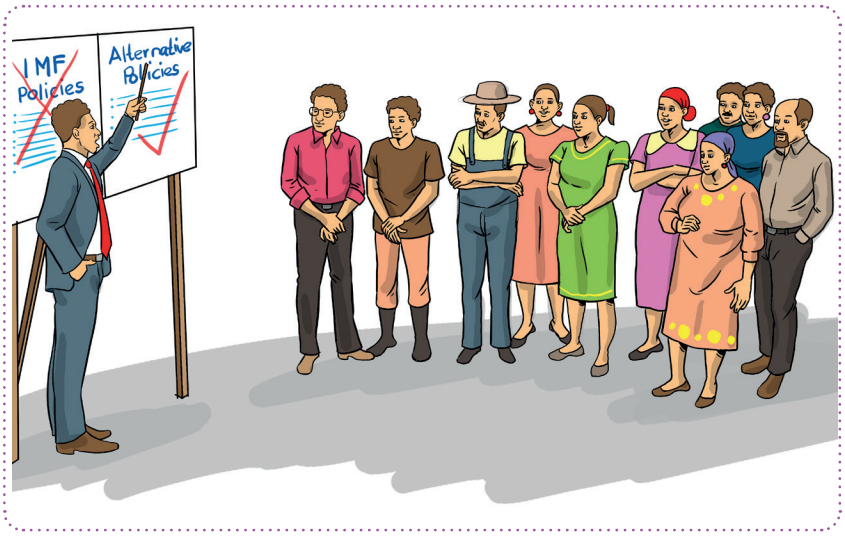
A successful recent example occurred in Latvia in December 2009 when a court case was brought by pensioners to challenge the constitutionality of the new state pension law designed to comply with IMF/ECB deficit reduction targets, which had temporarily restricted payment of pension funds. The new law had decreased the amount received by current pensioners by 10 percent and decreased the pensions of future pensioners (individuals currently employed) by 70 percent. Although temporary, the law did not provide for repayment of the reduced amounts once the economy stabilized. Finding the law to be unconstitutional, the Court ordered the Parliament to draft a plan for the repayment of the reduced pension funds by March 2010. In this case, the Latvian Constitutional Court asserted the primacy of constitutional and human rights law in making public policy decisions on fiscal allocations. The Court's declaration that international loan provisions could not trump human rights obligations was a major victory for those seeking greater accountability from multilateral institutions to universal human rights principles. (ESCR 2010).

3.Advocacy Strategies

a. Conducting Economic Literacy Trainings

Education advocates organize and mobilize fellow citizens at the national level to participate in a series of Economic Literacy Trainings that sensitize and demystify the facts about the IMF loan programs and neoliberal policies in their countries. Education advocates should reach out and work with economists at universities, research institutes and other NGOs to acquire information and easily explain and deconstruct the basic information about economics in a non technical manner that will be accessible, relevant and useful for advocates.
Education advocates must broaden their base of domestic political opposition to IMF policies by inviting key parliamentarians, any relevant ministry officials willing to attend and especially local media to join with CSOs in the trainings so that CSOs are not the only ones with key information when moving forward. Education advocates should proactively seek to include partners from other sectors to the trainings.

b. Conducting Public Events about the External Loans



After the first few Economic Literacy Trainings have been completed and advocacy groups have written and published materials for their networks and constituencies, the second step in the advocacy strategy involves education advocates hosting a series of open national Public Events at which attention can be drawn to the problems with the current public debt programs and alternative policies can be proposed and discussed. It is important for education advocates to take the initiative and proactively create their own public forums at which they decide on the agenda and the topics to be discussed instead of participating in their governments formal "consultations" for their national Poverty Reduction Strategy Papers (PRSPs). (Rowden, 2011, pg 63)

Such Public Events can take many different forms, like national policy "audits" from a rights based approach as discussed. The key goal must be to engage citizens in a wider national dialogue, convene broad public spaces in which to raise concerns, to make clearer how the IMF/Donor policies negatively impacts education and many other segments of society and to let people know viable alternative policies that must be considered.

4. Internationally Coordinated Actions

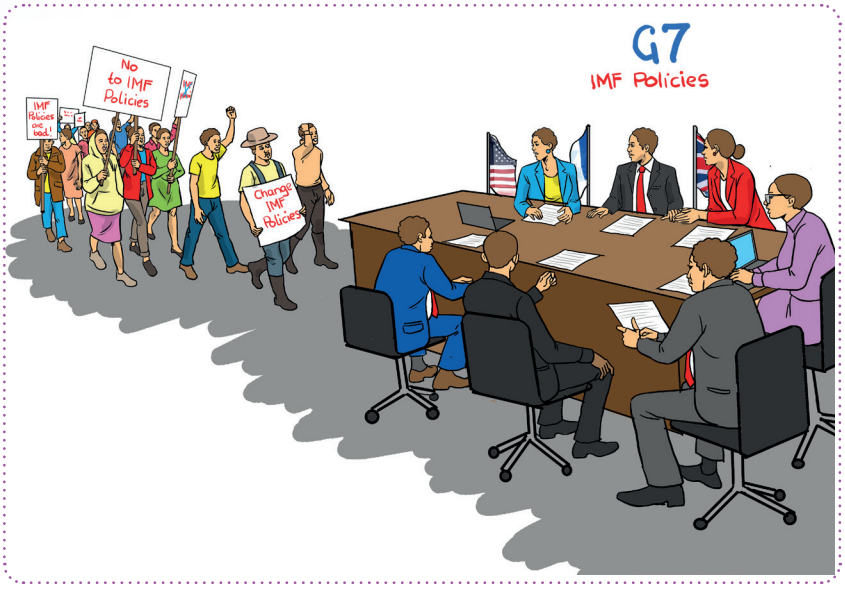
a. IMF Governance Structure

Before considering internationally coordinated actions, it is important to understand some basic facts about the internal governance structure in order to understand how best to go about advocating for policy changes at the IMF.
The IMF is run by its Board of Governors and particularly by its Board of Executive Directors. This Board of Executive Directors has mainly G7 country representatives with overwhelming control over voting on country loan programs or policy changes because of their disproportionately large share of voting power. There are 24 Executive Board seats and the IMF's five largest members, the US, Japan, Germany, France and Britain – each have their own seats on the IMF board and are allowed to appoint their Executive Directors, whereas the other 19 seats of the 24 member board are comprised of groups of countries called constituencies. Since a super majority of 85 percent of votes is required for major decisions, and the US has 17.7 percent of the votes, Washington's Executive Director has a built in veto.

Therefore, for advocates attempting to get IMF policies changed under these current governance arrangements, it is important to recognize the dominant authorities are the US Treasury Department (which includes heavy representation from Goldman Sachs) and, secondarily, the European powers, all under tremendous lobbying pressure from their respective financial industry associations.

b. Changing IMF Policies

Currently the main obstacle to changing IMF policy is that developing countries – as well as the recent European crisis countries – are not using their potential influence within the IMF. Their representatives are mainly going along with the decisions of the G7. If any sizeable bloc or blocs of these countries were to band together to press for change within the IMF, there could be some real reforms at the IMF. This type of international coordination among developing countries has been effective over the last decade of struggle within the World Trade Organization, where developing countries have often not accepted the G7 consensus, and have successfully blocked the negotiation and implementation of rules that would hurt them. The key difference here is how to successfully apply political activism pressure coordinated by activists across many countries.



Given these facts, there are important roles for advocates to play in both Northern and Southern countries in the context of the IMF Executive Board. Even though Civil society advocates in the global North, particularly the G7 economies, have a special obligation to get IMF policies changed and governance reforms enacted, CSOs in all countries must pressure their own finance ministries, foreign ministries and agencies which are responsible for giving instructions to their representatives (Executive Directors) on the IMF Executive Board. CSO advocates should also engage directly with their legislative committees which have are supposed to exercise oversight control over what actions are taken by their foreign ministry or finance ministry representatives at the IMF. (Rowden, 2011, pg 67)

c. Developing a specific joint South/North advocacy plan

This will involve jointly coordinated actions by education advocates from both the global North and South. There are many ways in which such actions can be taken - for example in the days and weeks before an IMF loan program is scheduled to be approved for Nepal at the IMF Executive Board in Washington DC, CSOs in Nepal could do a joint coordinated lobby and media campaign with their global North CSO partners before the loan program is to be formally approved by the Board. This type of coordinated action could include joint global South/North sign on letters and the strategic use of the media in both Nepal and its global North CSO partner countries, and could include coordinated, simultaneous lobbying of all the IMF Executive Directors against approving the loan program. Such steps could also be taken in the days and weeks ahead of when the IMF Mission teams visit Nepal to decide on the details and conditions of the next loan program.

Likewise, global North education advocacy CSOs and their partners could conduct Economic Literacy Trainings about IMF policies and conduct Public Events in their own countries and invite education advocates and economists from global South countries to attend and participate in such trainings to help educate the participants attending such trainings or public events in the global North.

List of Resources for Additional Reading

To expand your knowledge on Policy and Advocacy for education financing, here are additional resources;

- The 1% Gold Revenue Campaign
- Tracing progress towards revenue transparency and revenue sharing in the Zimbabwe extractives sector 2013-2019

5. Conclusion

With enough commitment, planning, coordinating and financing, education advocates across several countries could take the three steps of this advocacy strategy and embark on conducting a series of national Economic Literacy Trainings, national Public Events about the need to change IMF/donor policies and to then undertake strategically coordinated international lobbying and advocacy actions involving partners in both global South and North. Such an effort should be considered as a medium term effort that may well require a several years commitment. Such an advocacy strategy should build on previous work against IMF policies by many CSO actors as well as the new and growing strengths of the 7 existing strands of civic activism mentioned above.

Exercise 4: Policy and Advocacy Strategy for Debt Alleviation and Education Finance

Aim
To enhance understanding and ability of education advocates to formulate, articulate and execute effective debt alleviation and education financing policy and advocacy strategies.

Activity
Participants will refer to the following sections of GCE's Financing Matters: A Toolkit on Domestic Financing for Education.

1. Module 1 "Understanding Budgets" pg 34-36
2. Module 6 "Bringing it All Together: Developing an Advocacy Plan"
3. Refer to their responses from Exercise 1 Step 3d,e 4d,e; Exercise 2 Step 3e, 4e ; Exercise 3 Step 3c, 4d

Step 1: Using the Policy Activism sections, create a National Citizen Debt Audit activity plan for your CSO or group.

Step 2: Using the Policy Activism section, create an Economic Policy Audit activity plan for your CSO, group.

Step 3: Using the Advocacy strategy

- Create an Economic Literacy Training as an advocacy activity
- Create a Public Event about External Loans as an advocacy activity

Step 4: Adapting the exercise for a workshop setting

- If in a workshop setting, ask participants to get in 3 different groups of 5-7 each and role play a National Citizen Debt Audit
- In their groups, develop an activity plan for the Citizen Audit.
- Each group makes a plenary presentation and explains their plan
- Plenary discussion where participants prepare and present individual plans based on Activity 3 above.

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